meeting handouts

...INUTES

...cal Committee
...f July 14, 2005

...sentative Martha Heath, Chair, called the meeting of the Joint Fiscal ...mmittee to order at 10:00 a.m. in Room 11, State House.

Also present: Senators Bartlett, Cummings, Sears, Snelling, and Welch
Representatives Obuchowski, Perry, Severance, and Westman

Others attending the meeting included Senator Mazza; Representative Minter; State Treasurer Spaulding; Joint Fiscal Office staff; Administration officials and staff; Chief Legislative Counsel Russell; and representatives of numerous advocacy groups.

APPROVAL OF MINUTES:

1. Senator Bartlett moved approval of the minutes of the November 29, 2004 and the February 18, 2005 minutes, as submitted. The motion was seconded and adopted.

DUXBURY LAND SALE:

2. Tasha Wallis, Commissioner of State Buildings and General Services (BGS), submitted a new proposal for sale of former State Farm property located in Duxbury. The Committee having withheld at its February meeting approval of the Department's prior submission for sale of this land, BGS again placed the lot in question for sale through a public bidding process that complied with pertinent statutes and enabling legislation.

Bosselait Enterprises, Inc. submitted the high offer, in the amount of $531,000. After reviewing the bid and determining that it met all the applicable criteria, BGS now recommended that the Committee grant approval for completion of the sale to that firm.

Commissioner Wallis reported that earlier in the week she had met with the Duxbury Selectboard, which unanimously voted to support the sale to Bosselait Enterprises, Inc.

On a motion from Senator Cummings, the Committee voted its approval of the proposed sale.

DEPARTMENT OF BANKING, INSURANCE, SECURITIES AND HEALTH CARE ADMINISTRATION (BISHCA) TRANSFERS:

3. Commissioner John Crowley submitted estimated final figures for fiscal year 2005 receipts available for transfer to the General Fund from the Insurance, Captive Insurance and Securities Regulatory and Supervision Funds, as follows:

Because firm final figures were not available at the time of the meeting, the Committee's action permitted adjustments in the amounts after the meeting *[see below].* The final figures, adjusted by a total upward transfer of $19,636.75 per July 18, 2005 letter addressed to the Committee Chair from Commissioner Crowley, are as follows:

Fund name	Amount
Insurance Regulatory and Supervision Fund	$ 9,339,218.10
Captive Insurance Regulatory and Supervision Fund	244,659.64
Securities Regulation and Supervision Fund	1,959,590.94
Total	$11,543,468.68

As required in Section 76(a)(2) of Act 76 (fiscal year 2005 budget adjustments) of the 2005 legislative session, the Commissioner certified that the transfer of the unencumbered balances in these funds would not impair BISHCA's ability "...in fiscal year 2006 to provide thorough, competent, fair, and effective regulatory services, or maintain accreditation by the National Association of Insurance Commissioners...."

Representative Perry moved that the Committee accept the Commissioner's certification relating to the transfer of the balances, with the understanding that if the amounts presented at this time were to change slightly, the adjusted figures would be relayed to the Joint Fiscal Office after the meeting and reflected in the minutes. *[Note: Those revised figures are shown above.]*

GLOBAL COMMITMENT (MEDICAID):

4. Joshua Slen, Director of the Office of Vermont Health Access (OVHA), reported on the status of negotiations with the federal Centers for Medicare and Medicaid Services (CMMS) over Vermont's request for a waiver to enable the State to reform its delivery and financing of Medicaid services. The reform effort, which was presented to the General Assembly during the recently-adjourned session, is known as "Global Commitment to Health."

Section 250(c) of Act 71 (Fiscal Year 2006 appropriations) of the 2005 legislative session stipulates that any agreement to transform the existing system of funding Medicaid must be approved by the General Assembly, or if the General Assembly is not in session, by a majority vote of the members of the Joint Fiscal Committee upon recommendation of the Health Access Oversight Committee.

In a written program overview which Mr. Slen distributed to the members, the global commitment reform approach reflects Vermont's goals as: moving "from a reactive, claims processing apparatus to a proactive, care management model;" becoming an active partner in reforming delivery and financing of health care; improving quality of care and controlling Medicaid program costs through enhanced coordination; and providing flexibility to enable the use of state-federal resources more effectively. In exchange for program flexibility, Vermont will agree to a five-year, aggregate Medicaid spending limit. The program design calls for OVHA to operate as a Public Managed Care Organization (MCO) which must comply with federal managed care rules. The Agency of Human Services will be responsible for program monitoring and evaluation.

The focus of Mr. Slen's remarks as well as of the ensuing discussion was the progress and status of the ongoing negotiations with CMS. Responding to Representative Obuchowski's observation that members of the General Assembly had understood the discussions would have concluded by now, Mr. Slen assured the Committee that the fact that negotiations have not yet closed has no negative financial consequences to the State in the current fiscal year.

Members were interested in what the Administration will do to facilitate obtaining this Committee's approval and when to expect a starting date for the waiver to take effect. Mr. Slen assured them that approval is imminent and that the State is prepared to sign a contract to be in place by the end of this month. The capitation rate will have to be certified by an actuary, who will determine the appropriate funding level to adequately support the existing Medicaid program. The certified capitation rate is the amount necessary to support all the Medicaid programs in the State of Vermont, according to the State.

Once the contract is signed, the actuary will have a six-week time period in which to complete its work. He expected by September 15 to have certified rates. A starting date has not yet been determined, although from Vermont's perspective it should be no later than October 1 of this year to enable the State to capture all the money possible for the fiscal year. He suggested that the starting date for the waiver might be the date of approval by the Joint Fiscal Committee, or another date such as the beginning of a month or of a quarter.

The Chair observed that members of the General Assembly have been told since the outset of the Administration's proposing the global commitment approach that they would be partners in the process. She now expressed concern that negotiations will be completed before this Committee knows and understands the details and implications of the new Medicaid funding mechanism, particularly the effect on Vermont's Medicaid population.

Senator Bartlett echoed the Chair's concerns about the Legislature's relative lack of input into the process. She pointed to difficulties experienced during the session by the Legislature and its staff in trying to understand and analyze details of the complex global commitment concept and its potential effects on Medicaid recipients. In the Senator's opinion, to spend time at this point on details that are still under negotiation would be non-productive.

Representative Perry suggested that a working session of the members would be needed prior to Committee action on an agreement with the federal CMMS.

Senator Sears inquired as to whether the Administration has kept the Joint Fiscal Office staff up to date as talks with CMMS have progressed. Although Mr. Slen responded in the affirmative, there was an indication that the Committee's staff is not fully aware of the details of the most recent proposal. Mr. Slen maintained that the Global Commitment concept has not changed for months, and the Administration's position has been and continues to be that there will not be an agreement unless it is good for Vermont.

Representative Westman asked that the Administration keep the Chairs of the Senate and House Appropriations Committee informed of the progress of negotiations and of general areas where it may have concerns, and that the two Chairs then could decide whether the other Joint Fiscal Committee members should be made aware of them. Mr. Slen gave him that assurance.

As the deliberations drew to a close, the Chair observed that Committee members will not be comfortable with making a decision on this complex subject until they can discuss thoroughly with Mr. Slen the latest changes in the Global Commitment model as compared to what originally was proposed to the Legislature. Other members agreed, and she requested that he not finalize negotiations with CMMS until the Committee is familiar with those modifications.

VERMONT STATE HOSPITAL UPDATE:

5. Paul Blake, Deputy Commissioner for Mental Health Services, accompanied by Carrie Hathaway, Finance Director for that division of the Health Department, presented a status report on the State Hospital. He distributed a one-page summary of an updated operating plan as of July 12, comparing revised budget proposals and assumptions with the initial budget request outlined in testimony before the House Appropriations Committee on March 17, 2005.

The new operating plan showed an increase of $819,468 over the initial request, and a variance in need of $807,177 from the amount appropriated by the General Assembly (including "waterfall" funding) for the current fiscal year.

As set forth in the summary, the assumptions used in developing the revised budget are:

- Hospital remains as a 54-bed facility until 1/1/06
- As of 1/1/06:
  - 16-bed sub-acute facility developed in community;
  - 6-bed secure-residential facility developed in community; and
  - 32-bed facility remaining at the VSH with own management.
  - Retain current staffing levels with some enhancements to nursing coverage.
  - Retention packages offered (including conversion of long-time temps to full time and nursing market factor adjustments).
  - Significant enrichment to psychiatric coverage contract.

Mr. Blake's comments centered on the positive changes for the State Hospital of the new contract for psychiatric services with Fletcher Allen Health Care. In response to the Chair's inquiry, he elaborated on how the arrangement will benefit VSH patients and staff and address the critical issues that have developed at the facility.

REVENUE FORECAST AND ECONOMIC REVIEW:

6. Tom Kavet, the Committee's economic and revenue consultant, presented his most recent revenue information, also intended for presentation to the Emergency Board on this date. Distributed to the members was a written report entitled "July 2005 Economic Review and Revenue Forecast Update," salient points of which he orally summarized.

Mr. Kavet reported that nothing foreshadowed the kind of strength Vermont experienced in fiscal year 2005 in personal income, corporate, estate and property transfer tax revenues. He estimated an aggregate upgrade of as much as $40 million in fiscal year 2006 tax receipts over the January 2005 projections, although the Transportation Fund is expected to generate about $3.5 million less than the earlier estimate. This would have been $5 million had the Legislature not raised inspection fees. Accounting for very substantial capital gains and other profits is an extraordinary appreciation in real estate values in the state over the past several years, a boom which his report addressed in some depth. He cautioned that the upward direction in revenues is likely to be short lived, foreseeing that the trend in real estate values might continue for five to seven quarters before receding.

On the negative side of the Vermont economy, Mr. Kavet talked about the huge loss of jobs experienced in Vermont in the past four years.

A section of Mr. Kavet's written report addressed the Streamlined Sales Tax Agreement (SSTA), a multi-state effort to simplify and streamline state sales and use taxes to facilitate collection of such taxes from out-of-state vendors. The SSTA will affect revenues in fiscal year 2006 and beyond, although current SSTA revenue estimates are highly uncertain. As the report pointed out, "Revenue estimates from the initial program participants...vary by a factor of about 9...." Citing that information, Representative Obuchowski observed that when Act 68 was enacted, legislative intent language indicated that once the SSTA is in effect, the sales tax should be reviewed and reduced by one-half of one percent, to 5.5 percent. He wondered whether Mr. Kavet's forecast includes revenue to accomplish that reduction. Mr. Kavet said no, that his understanding was that such a tax change would not be automatic; and that Vermont's initial participation would begin in April 2006 and after that a tax change would be considered.

Representative Obuchowski asked if such a reduction would be possible, to which Mr. Kavet replied that at this point it would be premature to say that is possible. He added that by April 2006, six months of hard data will be available from the initial participants, who launch the program on October 1, 2005.

FISCAL YEAR 2005 CLOSEOUT:

7. James Reardon, Commissioner of Finance and Management, introduced to the Committee the new Deputy Commissioner of Finance and Management, Susan Zeller.

Reporting on the fiscal year 2005 closeout, Mr. Reardon reported that preliminary figures indicate that General Fund revenues exceeded the target figure by about $54.5 million. After factoring out $2.4 million of estate tax that by law must be transferred to the Higher Education Trust Fund, the General Fund available surplus is approximately $52.1 million. The amount of the surplus allows funding of all the items included in the "waterfall" provision of the fiscal year 2006 appropriations act (Section 263), plus a transfer to ensure a fully funded transportation stabilization fund.

The Commissioner discussed higher-than-expected direct applications amounting to approximately $5 million. He talked about what the Administration regards as a possible flaw in the current law relating to the abandoned property program in the Treasurer's office that affects transfers of receipts from that source, which may result in as much as a $2 million transfer back to abandoned property in the current fiscal year to pay for liabilities for which the State already has received money. His office will work with the State Treasurer and the Joint Fiscal Office to develop recommendations on how that law should be changed.

After taking into consideration the designated uses of the surplus which he mentioned, Commissioner Reardon estimated that approximately $16 million may be available in the General Fund on a one-time basis in the current fiscal year. Final closeout figures are not yet available, and he assured the Committee that as his staff proceeds to final closeout they will fully involve the Joint Fiscal Office in the process and ultimately reach a consensus on the results.

Mr. Reardon mentioned potential fiscal year 2006 budget adjustment issues, including the abandoned property program, substitute care in the Agency of Human Services, Medicaid and the Health Access Trust Fund, the Vermont State Hospital, and State match for potential increases in federal transportation funds. He also made the Committee aware of some ongoing areas of concern, such as the liability in the teachers retirement fund. In closing, he observed that despite fairly robust revenues at the present time, spending pressures continue to outstrip revenues.

Senator Sears cautioned against use of the term "surplus," which he believes gives a false impression given the substantial need for additional funding in a variety of areas, such as the teachers retirement fund.

IN-DEPTH BUDGETING PILOT PROGRAM:

8. Mr. Reardon referred to Sec. 262 of Act 71, which calls for the Commissioner of Finance and Management to select up to two departments to undergo an in-depth budget review and to submit his choices to the Joint Fiscal Committee at its July meeting. He advised that three departments have been selected to undergo this review, according to guidelines delineated in Sec. 262: Education, Health, and Public Safety.

FUTURE MEETING DATES:

9. The Committee agreed to meet on Thursday, September 15, and Thursday, November 17. Members are to be contacted if the determination is made to hold a separate meeting on the global commitment issue.

SEPTEMBER AGENDA ITEMS:

10. Representative Obuchowski asked that the September agenda include the topics of fuel assistance and the staff's best estimate of what fiscal year 2007 residential and non-residential tax rates should be. On the former subject, he explained that with Vermonters' struggles to pay their fuel bills in the face of rising oil prices, it is important for this Committee to monitor the situation regularly and to consider increasing assistance.

JOINT FISCAL OFFICER'S REPORT:

11. In addition to the information contained in his July 6 written report which was mailed to the members prior to the meeting, Chief Fiscal Officer Stephen Klein told the Committee that September 30 is the expiration date of Tom Kavet's contract. He recommended not soliciting bids for the work performed by Mr. Kavet, and that he be authorized to renegotiate a contract with Mr. Kavet through 2009. Committee members were amenable to this proposal.

Mr. Klein also advised that, following the practice in recent years, the Fiscal Office staff will receive flat amount salary increases, with those staff members who earn higher salaries to be awarded lower percentage raises than those earning less. The increases range is from 3.2% to 4.5%. Several analysts have been awarded additional raises based on their increased responsibilities.

The meeting was adjourned at 12:15 p.m.

Respectfully submitted:

Virginia F. Catone

Virginia F. Catone
Joint Fiscal Office

July 18, 2005

Honorable Martha Heath, Chair
Joint Fiscal Committee
1 Baldwin Street
Montpelier, Vt 05602

Dear Representative Heath:

Below are the final figures for Fiscal Year 2005 receipts available to the General Fund from the Insurance, Captive Insurance and Securities Regulatory and Supervision Funds.

Pursuant to Section 76 of No. 6 of the Acts of 2005, I hereby certify that the transfer of the amount below will not impair the ability of this Department in Fiscal Year 2006 to provide thorough, competent, fair, and effective regulation of insurance companies, banking and other financial services companies, and securities companies or impair the ability of the Department to maintain accreditation by the National Association of Insurance Commissioners.

Fund	Amount
Insurance Regulatory and Supervision Fund	$9,339,218.10
Captive Insurance Regulatory and Supervision Fund	$ 244,659.64
Securities Regulation and Supervision Fund	$1,959,590.94
Total	$11,543,468.68

Sincerely,

John Crowley
Commissioner

JC/svb

State of Vermont

Global Commitment to Health

Program Overview

July 2005

Program Reform Approach:
GLOBAL COMMITMENT TO HEALTH

The Global Commitment to Health Waiver will serve as an effective vehicle for program reform

- *Vermont intends to move from a reactive, claims processing apparatus to a proactive, care management model*
- *Vermont Medicaid will become an active partner in reforming health care delivery and financing*
- *Enhanced coordination will improve quality of care and serve to control program costs*
- *Additional flexibility will enable the state to more effectively use state-federal resources*

GLOBAL COMMITMENT TO HEALTH
Operational Parameters

Vermont is in the process of finalizing the Demonstration design with the Centers for Medicare and Medicaid Services (CMS), as defined by the Terms and Conditions. Key components include:

- *Establishing baseline for current services and eligibility*
- *Defining program flexibility with regard to service delivery and eligibility*
- *Identifying MCO operational functions, including beneficiary rights and protections, as required by federal managed care legislation (BBA 97)*
- *Monitoring program eligibility, access to health care and expenditures*
- *Monitoring quality and enrollee satisfaction*

GLOBAL COMMITMENT TO HEALTH
Program Design

The Office of Vermont Health Access (OVHA) will operate as a Public Managed Care Organization (MCO)

- *AHS will make a capitated payment to OVHA in exchange for OVHA's commitment to perform all functions delineated in the Inter-Governmental Agreement (IGA)*
- *While OVHA must comply with BBA managed care rules, it will gain operational flexibility*
- *AHS will be responsible for program monitoring and evaluation*

GLOBAL COMMITMENT TO HEALTH
Program Design

The Vermont MCO will adhere to the beneficiary protections enumerated in the Balanced Budget Act of 1997

- *Program monitoring and reporting*
- *Formal contracts for services (Inter-Governmental Agreements)*
- *Quality assessment and improvement*
- *Enrollee grievances and appeals*
- *Member services/communications*
- *Actuarial certification of rates*

GLOBAL COMMITMENT TO HEALTH
Program Design

The Agency of Human Services, as the Single State Agency, will be responsible for oversight of the Public MCO

- *Monitoring compliance with the IGA and the Waiver Terms and Conditions*
- *Reporting to federal government, as required by the Terms and Conditions*

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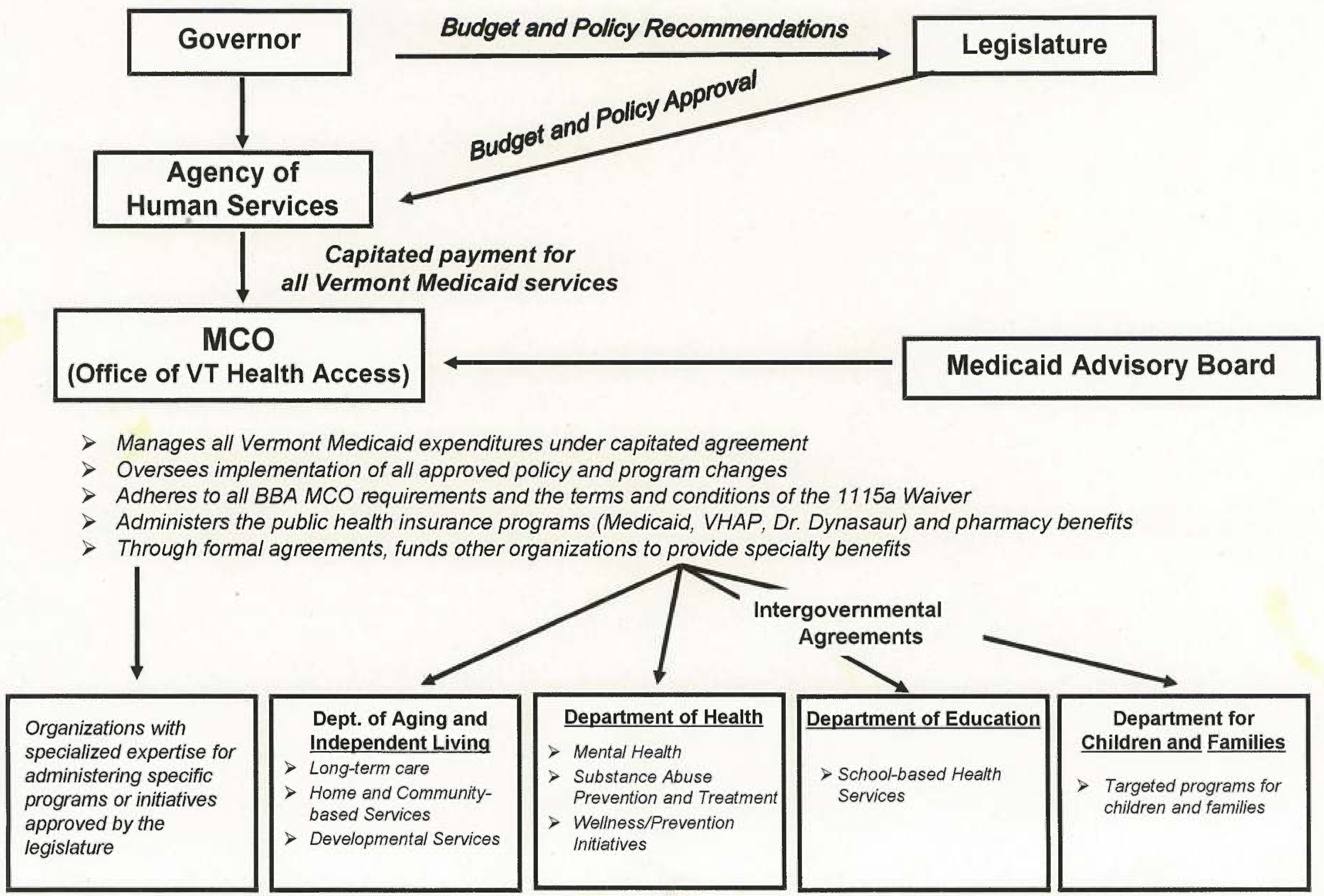
GLOBAL COMMITMENT TO HEALTH *Design*



GLOBAL COMMITMENT TO HEALTH
Financial Model

AHS will make a capitation payment to OVHA, the Public MCO, for the provision of all Medicaid services.

- *The capitation rate must be certified by an actuary, who will determine the appropriate level of funding to adequately support the existing Medicaid program*
- *The MCO will have authority to make expenditures for non-traditional health services*
- *Vermont will have the flexibility to expand coverage to the extent that the program has produced "Waiver savings"*

GLOBAL COMMITMENT TO HEALTH
Program Design

Flexibility will enable the MCO to target programs to meet unmet need; examples include:

- *Coverage of services traditionally not available through commercial insurance (e.g., personal care)*
- *Alternative financing strategies to improve access to health care, such as grants to primary care clinics*
- *Financial support for other broad-based health care initiatives (e.g., disease management)*

GLOBAL COMMITMENT TO HEALTH
Financial Model

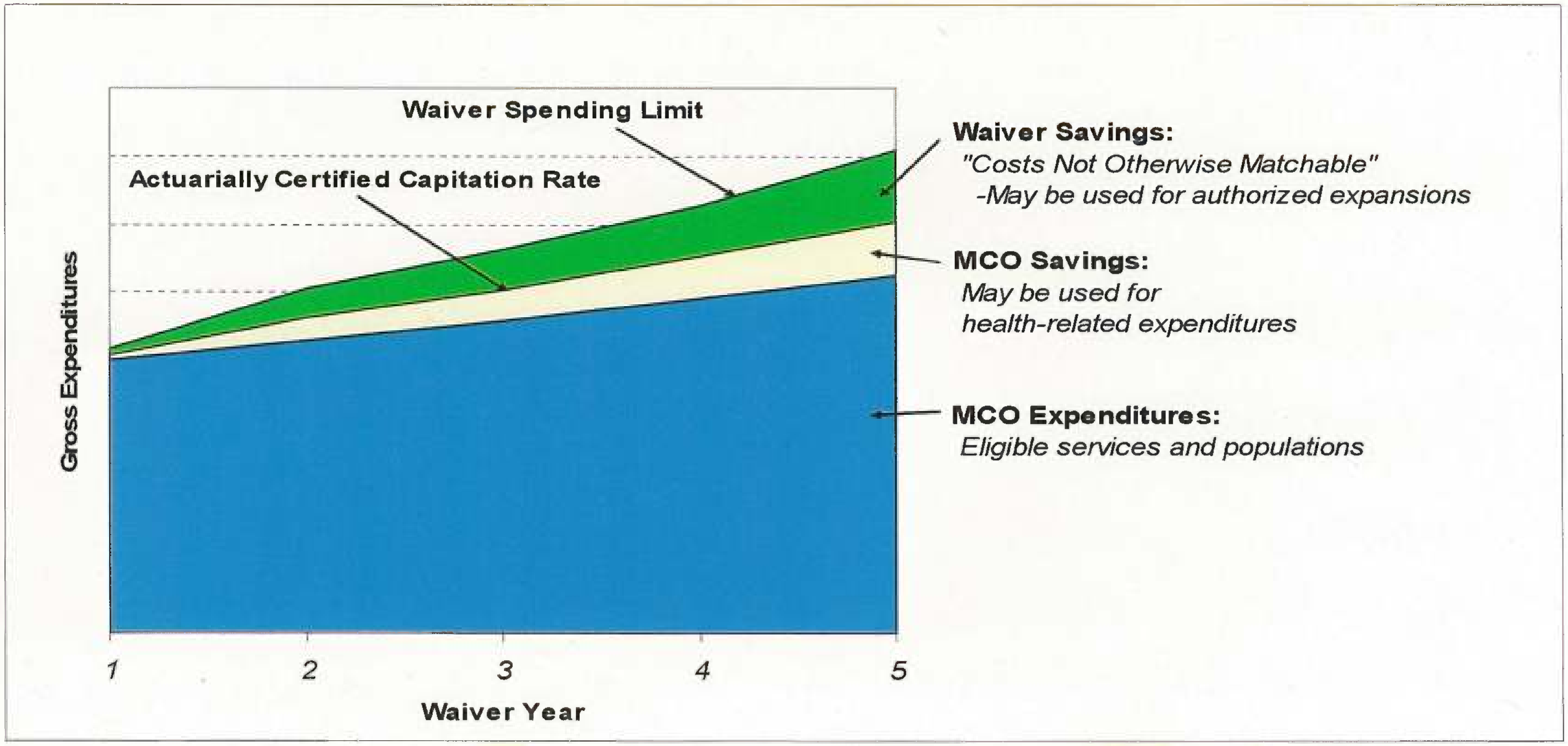
Vermont will be granted authority to obtain Federal Financial Participation (FFP) for "Costs Not Otherwise Matchable" (CNOM)

Potential programs include:

- *Continuation of existing waiver expansions (VHAP, pharmacy programs)*
- *Expansion of coverage for low-income Vermonters*
- *Subsidies for Employer-Sponsored Insurance (ESI)*
- *Funding for statewide health care initiatives (e.g., Vermont Blueprint for Health)*

GLOBAL COMMITMENT TO HEALTH
Financial Model

In exchange for program flexibility, Vermont will agree to a five-year, aggregate spending limit



GLOBAL COMMITMENT TO HEALTH
Financial Model

Vermont and CMS are actively engaged in Budget Neutrality negotiations

	Base Year	Trend Rates	Program Costs Counted Under the Waiver
Original Proposal	• *State Fiscal Year 2004 program expenditures*	• *Based on Vermont historical and projected trend rates* • *Average growth: 12.2%*	*All program expenditures except administrative expenses*
Revised Proposal: 6/8/05	• *Continues existing VHAP Medicaid Eligibility Groups* • *Incorporates 1115 LTC budget neutrality terms* • *Other services based on SFY04*	• *Based on President's Budget, 2006-2010* • *Average growth: 11.6%*	*All program expenditures except:* • *Disproportionate Share Hospital (DSH)* • *SCHIP* • *State-only Rx programs* • *Administrative expenses*
CMS Version: 7/8/05	• *Continues existing VHAP Medicaid Eligibility Groups* • *Incorporates 1115 LTC budget neutrality terms* • *Other services based on SFY04*	• *Based on President's Budget 2005-2010* • *Average annual growth: 10.1%*	*All program expenditures except:* • *Disproportionate Share Hospital (DSH)* • *SCHIP* • *State-only Rx programs* • *Medicare Part D Clawback* • *Administrative expenses*

GLOBAL COMMITMENT TO HEALTH
Financial Model

Current five-year projections of program spending demonstrate the feasibility of the Global Commitment financial model

	SFY06	SFY07	SFY08	SFY09	SFY10	Five-Year Total
Total Spending Authority (Waiver Expenditures Plus Expenditures Outside of Waiver)						
A. Original Proposal	$ 970,178,689	$ 1,087,210,362	$ 1,220,887,696	$ 1,374,056,840	$ 1,550,133,103	$ 6,202,466,690
B. Revised Proposal: 6-8-05	$ 1,011,839,563	$ 1,109,050,673	$ 1,227,294,735	$ 1,359,013,851	$ 1,505,779,462	$ 6,212,978,283
C. CMS Version: 7/8/05	$ 962,104,537	$ 1,062,396,082	$ 1,164,119,059	$ 1,276,322,772	$ 1,400,131,401	$ 5,865,073,852
Current Projected Expenditures	$ 915,664,851	$ 1,007,231,336	$ 1,107,954,470	$ 1,218,749,917	$ 1,340,624,908	$ 5,590,225,482
Difference: Projected Spending v. Waiver Spending Authority (CMS Version)	**$ 46,439,686**	**$ 55,164,746**	**$ 56,164,589**	**$ 57,572,856**	**$ 59,506,492**	**$ 274,848,370**
General Fund Reduction in Need Due to Global Commitment	**$ 27,914,896**	**$ 33,159,529**	**$ 33,760,535**	**$ 34,607,044**	**$ 35,769,353**	**$ 165,211,355**

GLOBAL COMMITMENT TO HEALTH
Program Administration

The Global Commitment to Health Demonstration will require operational and organizational changes

- *Funding – Most program funding will flow through the MCO capitation rate, with subcapitation agreements for programs administered by other departments*
- *OVHA Operations – OVHA will need to revise current operations and add functions to comply with managed care regulations; key areas include:*
  - *Member services, including grievances and appeals*
  - *Quality assessment and performance improvement*
  - *Program monitoring and reporting*
- *AHS will adopt an oversight role to ensure compliance with federal requirements*

GLOBAL COMMITMENT TO HEALTH
Status of Approval and Implementation Process

AHS and OVHA are moving forward with program planning; immediate issues include the following:

- *Federal approval*
- *Program funding process*
- *Actuarial certification of capitation rate*
- *Inter-Governmental Agreements*
- *OVHA operational changes*
- *AHS operational changes*

VERMONT

Agency of Human Services
Department of Health

The Vermont State Hospital

Testimony for the Joint Fiscal Committee

July 14, 2005

TESTIMONY TO HOUSE APPROPRIATIONS ON MARCH 17, 2005

Initial Budget Request:	G.F.	Total
Vermont State Hospital	-	15,568,911
Community Inpatient	1,778,091	4,736,661
Community Treatment	1,005,182	2,445,700
GF Needed in MH Appropriation to Fund the VSH	15,209,003	-
	17,992,276	22,751,272

Assumptions Used in Developing Initial Request:

- Hospital remains as a 54-bed facility until 1/1/06.
- As of 1/1/06:
  - 16-Bed Sub-Acute Facility Developed in Community;
  - 6-Bed Secure-Residential Facility Developed in Community;
  - 4-Bed Intensive Care Unit Developed in a Designated Hospital; and
  - 28-Bed Facility Remaining at the VSH but With Ties to a Major Medical Facility.
  - Enhancements to nursing coverage and reductions in psychiatric technician positions anticipated.
  - Retention packages offered.

OPERATING PLAN AS OF JULY 12, 2005

Proposed Budget	G.F.	Total
Vermont State Hospital	-	17,143,634
Community Inpatient	1,072,928	3,020,936
Community Treatment	1,005,182	2,445,700
GF Needed in MH Appropriation to Fund the VSH	16,733,634	-
	18,811,744	22,610,270
Variance in G.F. Need from Initial Request	819,468	
Variance in Need From Appropriated (incl. Waterfall)	807,177	

Assumptions Used in Developing Revised Budget:

- Hospital remains as a 54-bed facility until 1/1/06.
- As of 1/1/06:
  - 16-Bed Sub-Acute Facility Developed in Community;
  - 6-Bed Secure-Residential Facility Developed in Community; and
  - 32-Bed Facility Remaining at the VSH With Own Management.
  - Retain current staffing levels with some enhancements to nursing coverage.
  - Retention packages offered (incl. conversion of long-time temps to full time and nursing market factor adjustments).
  - Significant enrichment to psychiatric coverage contract.

Kavet, Rockler & Associates
Economic, Demographic & Public Policy Consulting

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Williamstown, Vermont 05679-9003 U.S.A.
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July 2005
Economic Review and Revenue Forecast Update

Prepared for the
State of Vermont
Emergency Board and
Legislative Joint Fiscal Committee

July 14, 2005

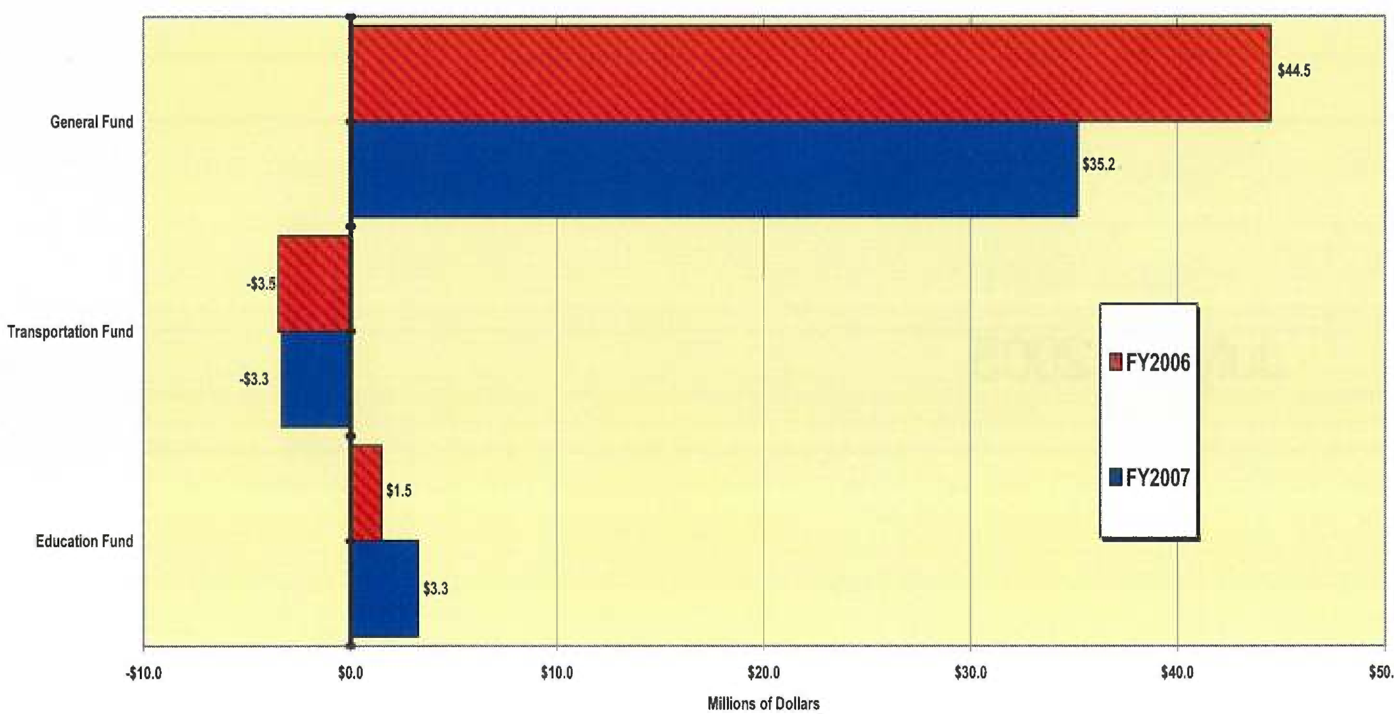
Economic Review and Revenue Forecast Update July 2005

Overview

Stoked by "frothy" real estate markets, accommodative interest rates and record corporate profits, the U.S. and Vermont economies generated exceptional growth in personal income, corporate, estate and property transfer tax revenues in FY05. Although employment and wage growth remain lackluster, the extraordinary appreciation in real estate values over the past several years has generated capital gains and other profits that may rival the stock market bubble of the late 1990s. Just how long this "irrational exuberance" may persist is an open question, however, broader based improvement in the economy in FY06 and leading indicators in real estate markets suggest at least another year of above-average growth.

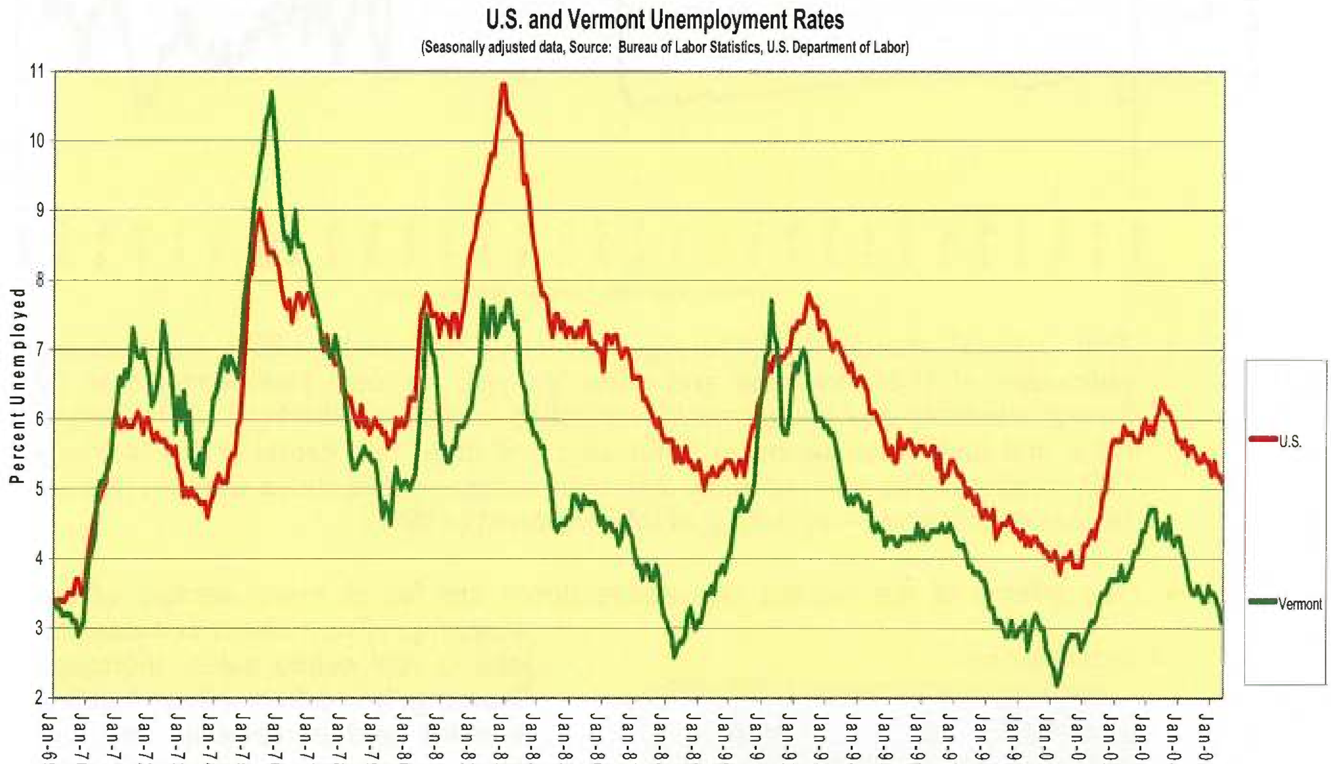
This economic context is the basis for a recommended aggregate upgrade of all funds of about $40 million in FY06 tax receipts and $35 million in FY07, over prior January projections. Contrary to most revenue sources, the Transportation Fund, which will suffer from persistently higher gas and oil prices, is expected to generate about $3.5 million per year less than previously projected.

Recommended Net Revenue Changes from January 2005 Forecast - Current Law Basis



The U.S. Economy

- Solid improvement in both the U.S. and Vermont economies has continued over the past 6 months, with U.S. unemployment dropping to 5% in June. The Vermont unemployment rate has held steady at about 2 percentage points below the U.S. rate – consistently among the top several states in the nation. Total U.S. employment in January of this year finally exceeded its prior cyclical peak, reached in February of 2001. Real U.S. GDP has been growing at between 3% and 4% during the last few quarters and is expected to continue at about this rate through most of FY06 and FY07.



- Despite oil and energy price increases of more than 75% over the past two years (see chart on next page), the economy has thus far absorbed this blow with uncharacteristic aplomb. Although impacts have been severe on lower income families and workers – and will be especially pronounced this winter in Vermont if heating oil prices remain inflated – *real* oil prices (adjusted for inflation) have only recently exceeded levels reached in the early 1980s. If these prices persist or rise further, inflationary pressures could reignite and force the Fed to compensate with higher interest rates. To date, however, core inflation has remained tame, in spite of both rising oil prices and higher import costs from a weakened dollar. This, in turn, has allowed the Fed to stick to measured interest rate increases that have yet to dampen the economy in any meaningful way.

- This "gentle" monetary tightening, however, has been offset by massive purchases of U.S. mortgage and other low risk (at least historically) debt by foreign investors and governments, insulating and even lowering U.S. mortgage rates and fueling an explosion in housing and other real estate prices in many U.S. markets. The table on page 9 illustrates some of the states with the highest market appreciation – including, of late, Vermont (+15%).

- The effects of the current real estate boom are felt in many sectors of the economy. From direct construction jobs to real estate sales, mortgage financing, home furnishings, building supplies and equipment, and, not least, consumer spending from mortgage refinancing and enhanced wealth effects. By some measures, residential real estate is now the largest single economic sector, representing as much as 16% of U.S. GDP and totaling $1.9 trillion. Because it is highly regional and characterized by long time lags between changes in supply and demand, it is also prone to be among the most cyclically volatile.

"Wow—the house I was using as a hideout has tripled in value since I was arrested."

- Through primary home ownership, real estate is also among the more widely owned asset classes, with 12% of the value of all primary residences owned by the poorest (as measured by net worth) 50% of the population and 51% owned by those in the 50^{th} to 90^{th} percentile of net worth. As detailed in the below table, the wealthiest 10% of the population owns only 37% of the value of all primary residences, as opposed to 88% of all stocks and 96% of all bonds. Aside from primary home ownership, however, other real estate is distributed much more unevenly, with the wealthiest 10% of the population owning 71% of all second (and third and…) homes and 85% of all nonresidential real estate.

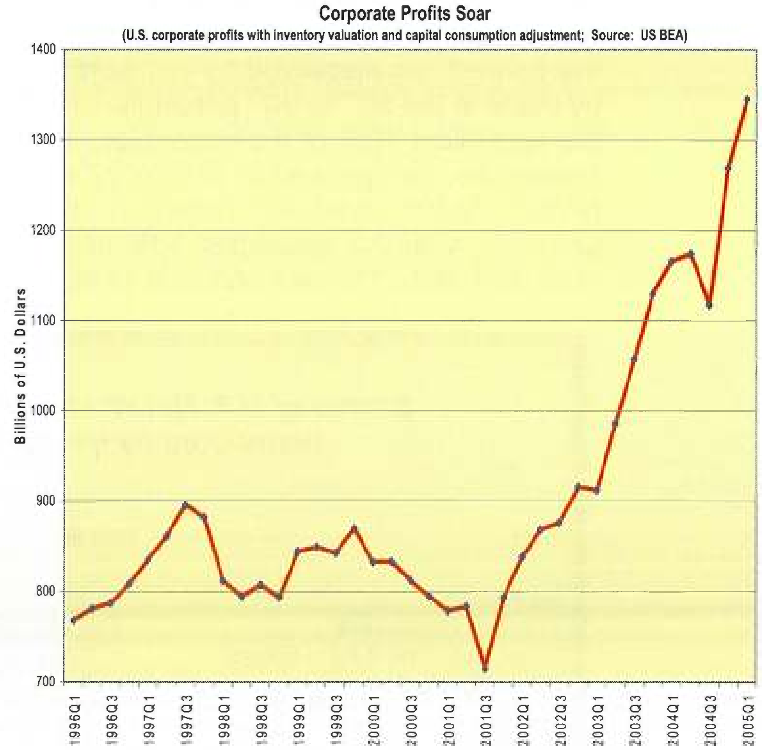
Shares of U.S. Net Worth and Selected Components Distributed by Net Worth Groups – 2001

	Wealth Percentile Group				
Item	*0 to 50*	*50 to 90*	*90 to 95*	*95 to 99*	*99 to 100*
All Assets	5.6	29.9	11.7	23.4	29.5
Principal Residence	12.3	50.6	12.2	16.0	9.0
Other Residential Real Estate	1.9	26.8	11.7	30.5	29.1
Other Real Estate	0.6	14.5	9.1	35.2	40.7
Stocks	0.5	11.4	9.9	25.3	52.9
Bonds	0.3	4.0	8.8	22.7	64.3
Businesses	0.4	9.9	6.6	24.9	58.3
Automobiles	27.9	48.3	9.5	9.3	5.1
Liabilities	25.9	47.9	8.6	11.6	5.9
Principal Residence Debt	23.5	51.7	9.1	11.1	4.7
Other Residential Real Estate Debt	4.2	40.3	10.4	28.1	17.0
Credit card	49.8	41.6	3.2	4.9	0.5
Net Worth	2.8	27.4	12.1	25.0	32.7
Total Income	22.9	38.1	9.2	15.3	14.5

Source: Federal Reserve Board, "*Changes in the Distribution of Wealth in the U.S. 1989-2001*," Table 10, Survey of Consumer Finances

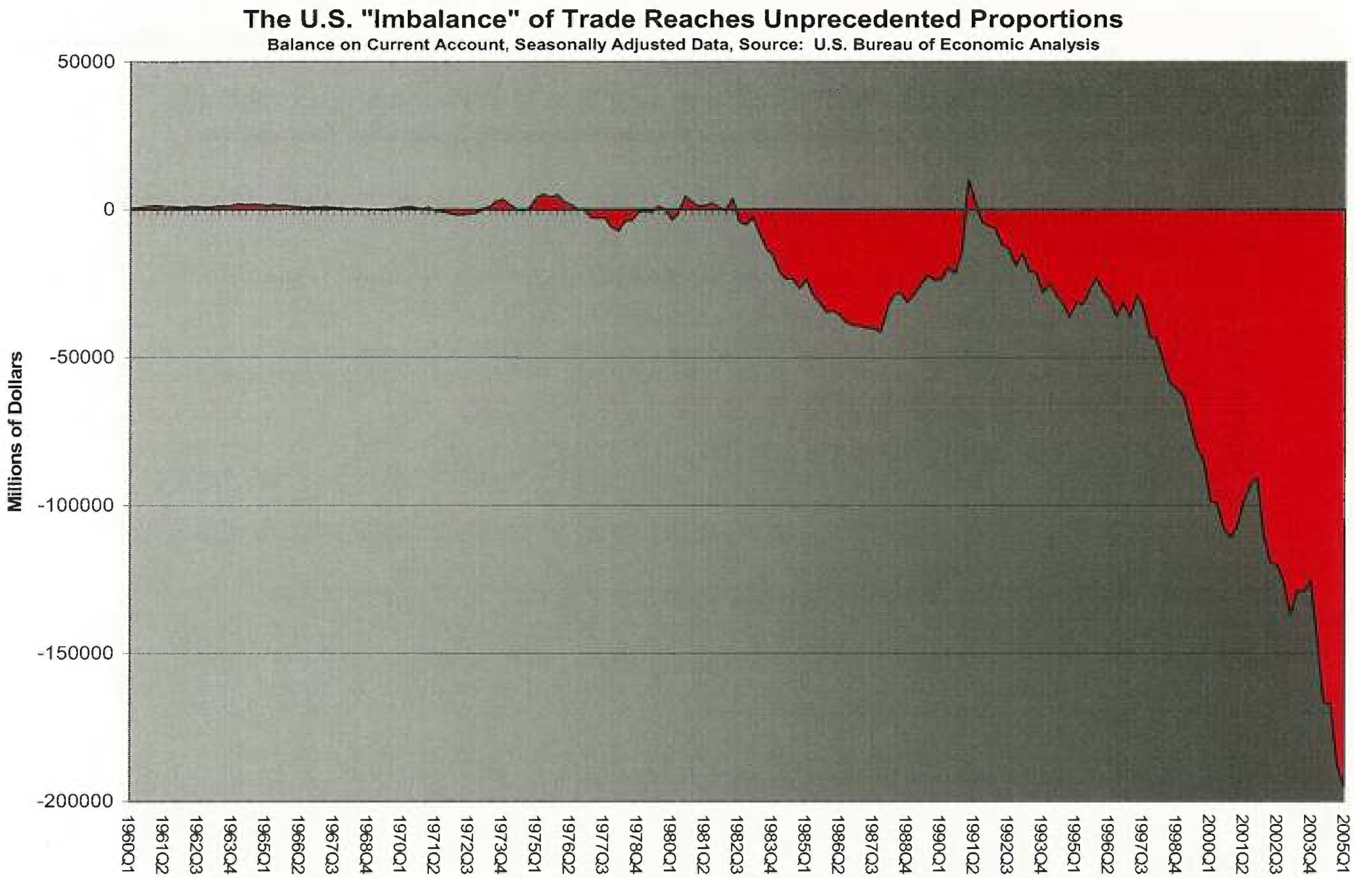
- The significance of this to tax revenues is that: 1) marginal tax rates are generally higher for wealthier population groups and, 2) non-primary residence real estate transactions are much more likely to generate taxable capital gains. Although data do not exist for Vermont at this time, Federal tax data for the 12 months ending in our fiscal year 2005 reveal a 33% increase in U.S. capital gains. With the stock market on hold, much of this is probably attributable to gains associated with real estate transactions.

- Soaring real estate values have also contributed to corporate profitability growth, with real estate representing a major component of corporate wealth. In addition to this, extraordinary productivity gains have boosted corporate profits and limited the need for new hiring. Businesses are producing more output with fewer workers and the benefits of this are largely accruing to the bottom line. While wage growth has been tame, corporate profits have reached record levels (see chart to right). Both U.S. and Vermont tax revenues have benefited from this surge in corporate profitability, with Vermont corporate tax receipts nearly doubling in the last two years and U.S. gains in the most recent 12 month period exceeding 40%. As businesses reach the limits of productivity growth and new hiring accelerates, however, corporate profits should slow in both FY06 and FY07.



- There are many issues that pose serious risks to the economy in FY07 and beyond. Among the most prominent is the record (almost every month) current account deficit, now running at about $65 billion a month and approaching 6% of GDP (see chart on next page), and the risks it poses for a precipitous decline in the value of the dollar relative to other major currencies. As the late economist, Herbert Stein, famously opined, "*If something cannot go on forever, it will stop.*" The current account deficit is squarely in this category and depending upon the way it eventually "stops," could have major repercussions for the U.S. economy – few of them positive. It should be noted that Stein also warned that, "*Economists are very good at saying something cannot go on forever, but not so good at saying when they will stop...*" We plead guilty.

- Other notable risks to the U.S. economy include a more rapid deflation of the housing bubble, accelerated interest rate increases, sustained high or rising oil and energy prices, ballooning Federal budget deficits and related longer term fiscal irresponsibility, higher inflation rates, low household savings rates and rising household debt.



- Table A, on the following page, outlines the May 2005 New England Economic Partnership (NEEP) and Economy.com macroeconomic forecasts, upon which the revenue forecasts herein are based. It also presents a comparative summary of how the official state forecasts for key macroeconomic variables have changed and evolved over the past two years.

- Although there was little change from the last NEEP forecast, expectations for near term economic conditions have generally improved, with a corresponding lowering of projected calendar year 2007 growth. We believe this pattern may be even more pronounced, with substantially higher near term growth and attendant upside risk (especially related to real estate markets), and a growing possibility of economic contraction in late FY07 and FY08. Judgmental adjustments to the revenue forecasts have been made to reflect these perspectives, however, the use of more current macroeconomic forecasts and alternative model simulations would allowing more precise revenue risk quantification and would represent an improvement to the forecasting process now in place.

TABLE A

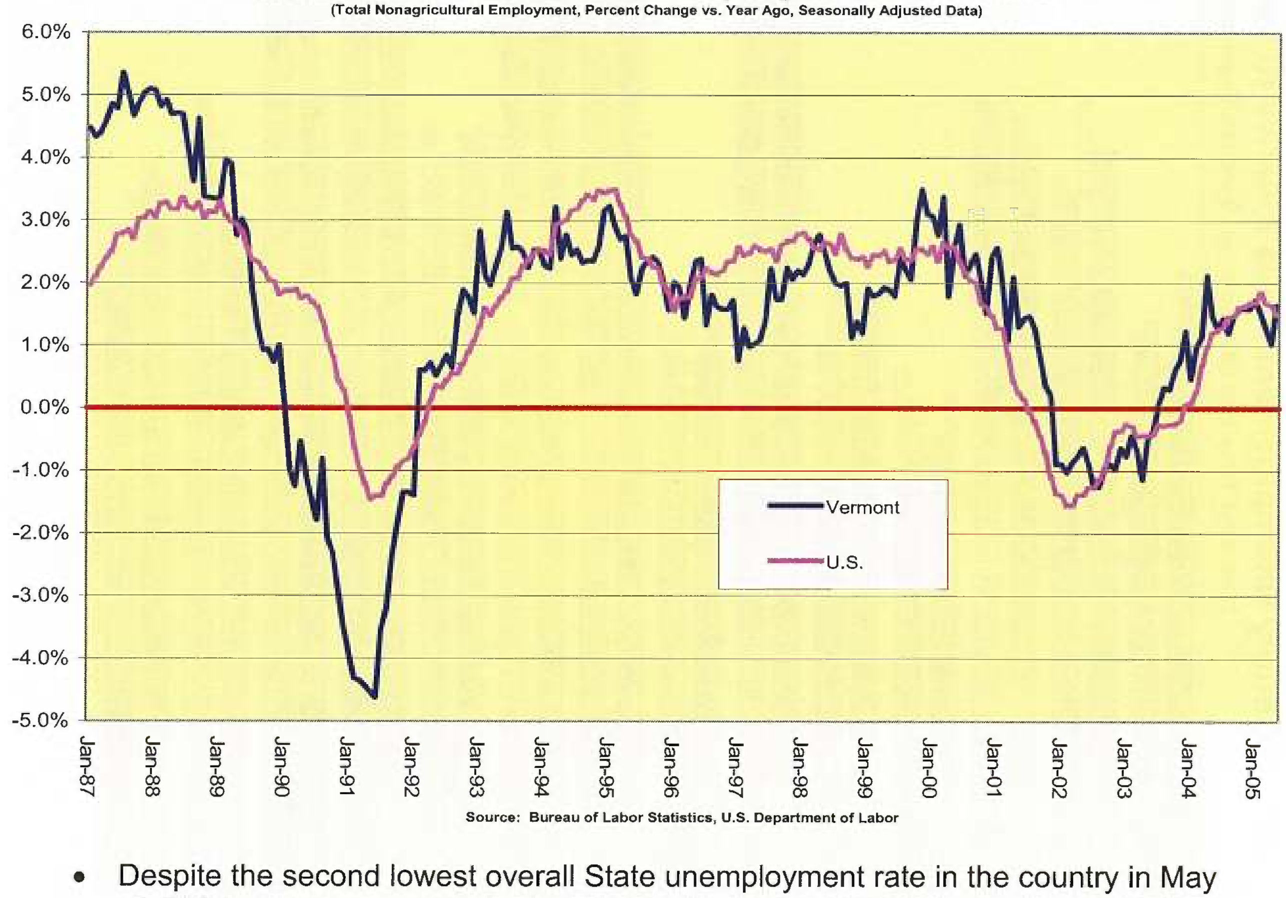
Comparison of Recent NEEP/Economy.com U.S. Macroeconomic Forecasts
October 2003 Through May 2005, Selected Variables, Calendar Year Basis

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Real GDP Growth									
Oct-03	0.3	2.4	2.3	3.7	3.1	3.4	3.0		
May-04	0.5	2.2	3.1	4.5	3.2	3.6	3.7	3.4	
Oct-04	0.8	1.9	3.0	4.4	3.3	3.3	3.5	3.6	
May-05	0.8	1.9	3.0	4.4	3.7	3.3	3.1	3.4	3.1
S&P 500 Growth (Annual Avg.)									
Oct-03	-16.4	-16.5	-4.3	25.1	4.2	13.2	5.1		
May-04	-16.4	-16.5	-3.2	29.3	4.7	11.7	7.9	6.1	
Oct-04	-16.4	-16.5	-3.2	17.1	5.7	15.3	10.9	8.2	
May-05	-16.4	-16.5	-3.2	17.3	9.2	12.9	10.0	8.5	6.1
Employment Growth (Non-Ag)									
Oct-03	0.0	-1.1	-0.2	0.9	2.1	1.7	1.3		
May-04	0.0	-1.1	-0.2	0.7	1.6	1.7	1.4	1.3	
Oct-04	0.0	-1.1	-0.3	1.1	1.8	1.5	1.2	1.4	
May-05	0.0	-1.1	-0.3	1.1	1.9	1.5	0.9	1.2	1.4
Unemployment Rate									
Oct-03	4.8	5.8	6.2	6.4	5.8	5.5	5.3		
May-04	4.8	5.8	6.0	5.8	5.7	5.5	5.4	5.2	
Oct-04	4.8	5.8	6.0	5.6	5.4	5.4	5.2	5.0	
May-05	4.8	5.8	6.0	5.5	5.3	5.3	5.2	5.0	5.0
Real Disposable Income Growth									
Oct-03	1.8	4.2	2.4	3.2	2.5	2.5	2.4		
May-04	1.8	3.8	2.6	3.1	2.8	2.8	2.9	2.8	
Oct-04	1.9	3.1	2.3	3.5	3.3	2.9	3.2	3.3	
May -05	1.9	3.1	2.3	3.5	3.1	3.1	3.0	3.1	3.1
Prime Rate									
Oct-03	6.92	4.68	4.12	5.04	7.05	7.99	8.00		
May-04	6.92	4.68	4.12	4.29	5.93	7.64	8.00	8.00	
Oct-04	6.92	4.68	4.12	4.35	6.04	7.41	7.83	7.50	
May-05	6.92	4.68	4.12	4.34	6.16	7.36	7.85	7.50	7.50
Consumer Price Index Growth									
Oct-03	2.8	1.6	2.1	1.0	1.8	2.4	2.3		
May-04	2.8	1.6	2.3	1.4	1.3	2.0	2.3	2.3	
Oct-04	2.8	1.6	2.3	2.6	2.0	1.9	2.3	2.1	
May-05	2.8	1.6	2.3	2.7	2.5	2.4	2.6	2.5	2.4
Avg. Home Price Growth									
Oct-03	8.3	7.1	5.7	2.4	1.7	2.7	3.8		
May-04	8.1	7.1	5.7	3.0	1.4	2.2	3.7	3.6	
Oct-04	8.1	7.0	7.0	8.6	2.3	2.1	3.7	3.7	
May-05	7.9	7.0	7.0	11.2	9.6	3.4	1.5	1.9	3.1

The Vermont Economy

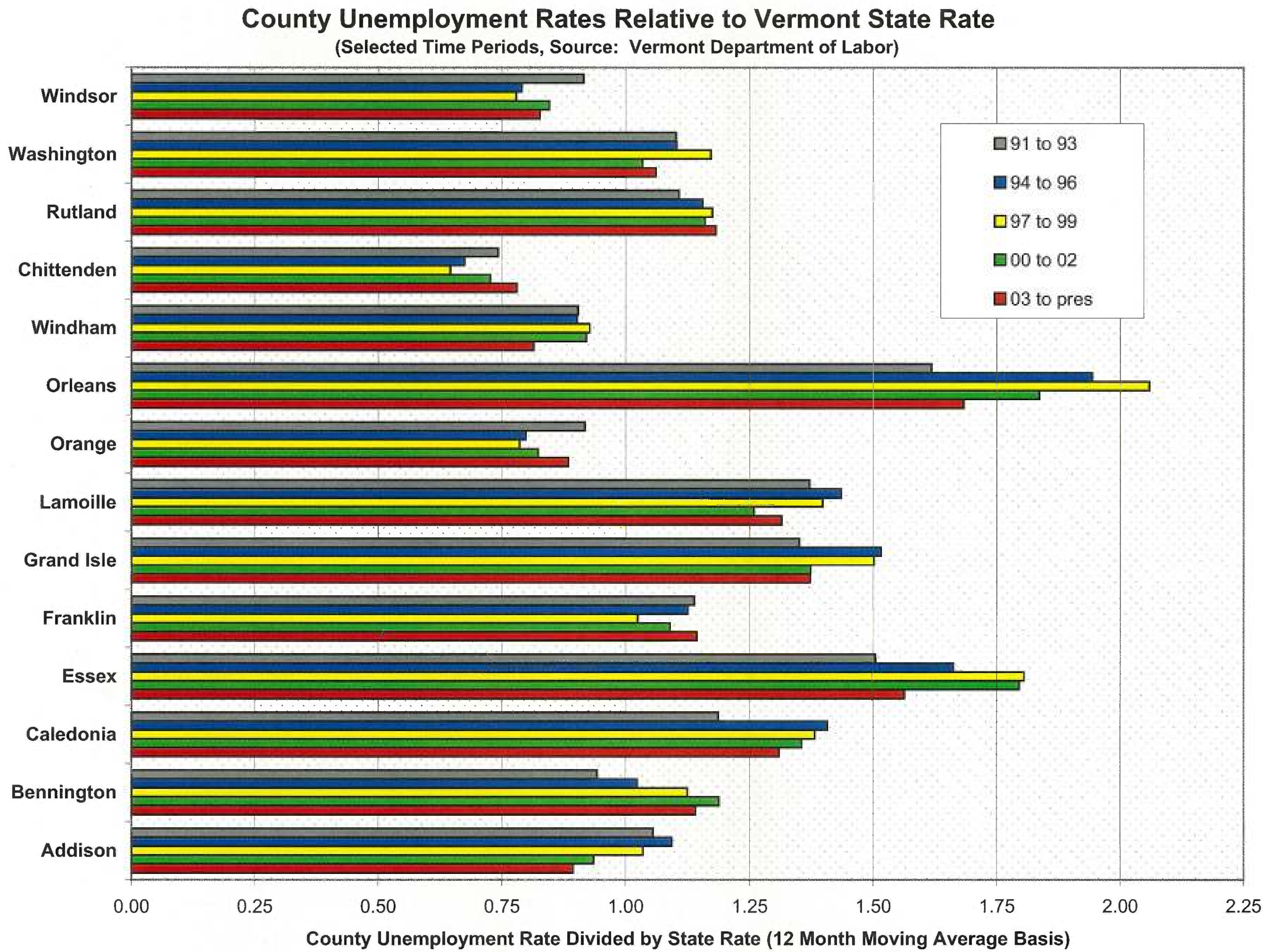
- The Vermont economy has been mirroring U.S. employment growth, with steady if unspectacular gains for this phase of the business cycle (usually among the fastest growing phases). Most employment growth since the last cyclical peak in January of 2001 has come in the Health Care & Social Assistance sector (+6,400 jobs), Government (+3,100 jobs), Construction (+2,800 jobs) and Professional & Business Services (+700 jobs). More than 20% of the State manufacturing employment base has been lost since the last cyclical peak four years ago – *a loss of more than 10,000 jobs*. Leisure & Hospitality employment is the only other major employment sector that has still not reached its prior peak, remaining about 200 jobs below seasonally adjusted January 2001 levels. As illustrated in the chart on page 9, this profile of job growth by major sector is similar to that experienced over the past 15 years.

Recent Vermont Job Growth is Closely Aligned With U.S. Trends
(Total Nonagricultural Employment, Percent Change vs. Year Ago, Seasonally Adjusted Data)

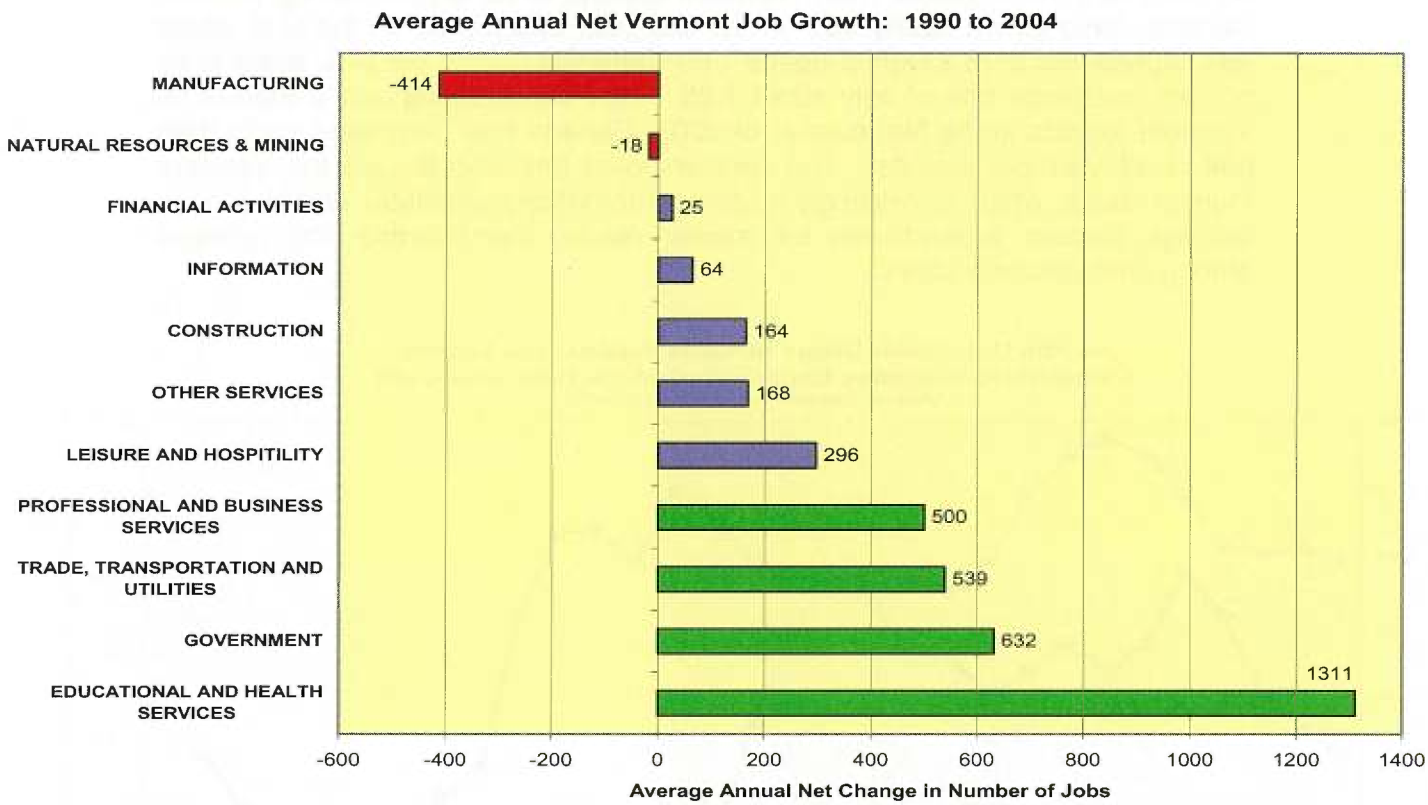


Source: Bureau of Labor Statistics, U.S. Department of Labor

- Despite the second lowest overall State unemployment rate in the country in May of 2005, there are persistent differentials in the economic health of various counties and sub-regions within the State. The chart on the next page illustrates the variation in county unemployment rates during the past 15 years. Although there has been some progress in narrowing the gap between the best performing


County Unemployment Rates Relative to Vermont State Rate
(Selected Time Periods, Source: Vermont Department of Labor)
Windsor
Washington
Rutland
Chittenden
Windham
Orleans
Orange
Lamoille
Grand Isle
Franklin
Essex
Caledonia
Bennington
Addison
91 to 93
94 to 96
97 to 99
00 to 02
03 to pres
0.00
0.25
0.50
0.75
1.00
1.25
1.50
1.75
2.00
2.25
County Unemployment Rate Divided by State Rate (12 Month Moving Average Basis)

and worst performing counties in recent years, public policies have been largely ineffective in advancing economic growth in the most disadvantaged regions of the State.



RECENT HOME PRICE APPRECIATION

	Last 12 Months	***Last 5 Years***
Nevada	*31.2%*	*84.7%*
California	*25.4%*	*103.0%*
Hawaii	*24.4%*	*82.9%*
Washington, D.C.	*22.2%*	*108.1%*
Florida	*21.4%*	*80.5%*
Maryland	*21.0%*	*77.9%*
Arizona	*19.4%*	*52.7%*
Virginia	*18.6%*	*67.5%*
Rhode Island	*17.1%*	*97.6%*
New Jersey	*15.8%*	*76.5%*
Vermont	*14.8%*	*56.4%*
Delaware	*14.8%*	*59.9%*
Maine	*14.1%*	*67.2%*
New York	*13.5%*	*70.6%*
Connecticut	*13.4%*	*61.5%*

Source: OFHEO Home Price Index

- Residential real estate prices in Vermont, as previously noted, have been accelerating at rates not seen since the late 1980s. After posting nearly 18% growth in the third quarter of last year, Vermont housing prices gained 12.8% in the fourth quarter of 2004, followed by first quarter 2005 growth of 14.8%, the 11th highest in the nation (see table to left). Based on an analysis of prior Vermont real estate cycles and similar cycles in other regional markets, we expect the current market bubble to inflate for an additional 5 to 7 quarters before receding. As pointed out by Dr. Stein above, however, forecasts of irrational market behavior are notoriously difficult and are best served by a close monitoring of market conditions and developments.

- One benefit from a weakening U.S. dollar is enhanced export competitiveness. As illustrated in the below chart, Vermont exports to its largest trading partner, Canada, have grown nearly 60% in the last year and a half, as the U.S. dollar has depreciated from a high of nearly 1.60 Canadian dollars per U.S. dollar to its present exchange rate of only about 1.25. After representing only a third of all Vermont exports in the first quarter of 2003, Canada now purchases more than half of all Vermont exports. The weaker dollar has also helped the Vermont tourism sector, which increasingly relies on international visitation, and increases average tourism expenditures for rooms, meals, merchandise and services among international visitors.

As The U.S. Dollar Drops in Value Against the Loonie,
Vermont Merchandise Exports to Canada Have Improved
(Source: Federal Reserve Bank of Boston)

- The Vermont economic forecast, upon which the revenue forecasts in this Update are based, is prepared by NEEP, using Economy.com state economic models. Administration Economist, Jeff Carr, manages the NEEP Vermont model, with input and consultation by JFO and other State business economists. As outlined in the below Table B, the most recent projections represent a slight downgrade to the prior October 2005 projections. This downgrade is likely to prove excessive in light of recent economic events and judgmental adjustments applied to this revenue forecast reflect expectations of stronger near term growth with steeper potential out year declines.

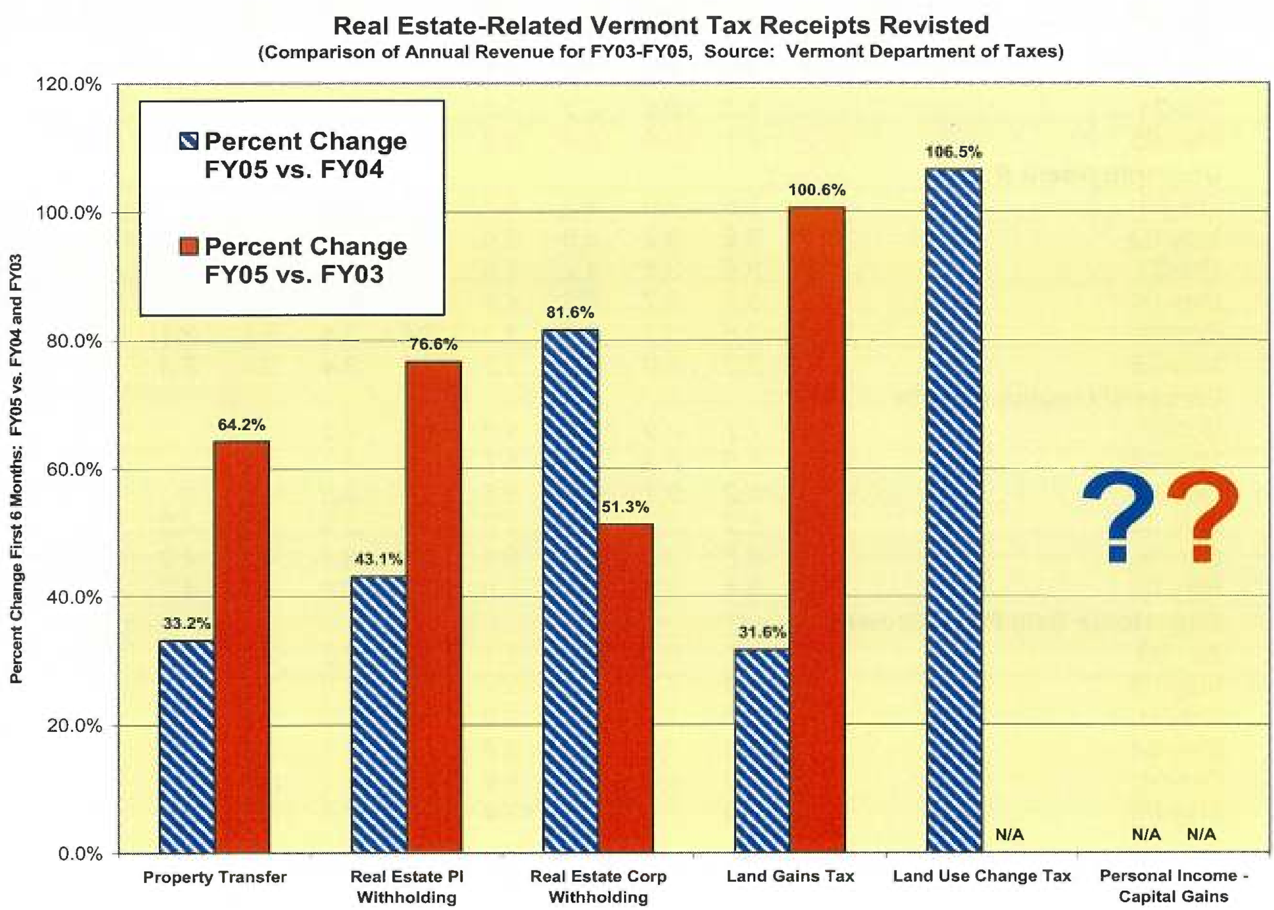
TABLE B
Comparison of NEEP/Economy.com* Vermont State Forecasts
October 2002 through May 2005, Selected Variables, Calendar Year Basis

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Real GSP Growth									
Oct-02	*1.9*	*1.1*	*1.6*	*3.2*	*2.2*	*2.8*			
May-03	*2.5*	*1.2*	*1.6*	*2.7*	*2.6*	*2.9*	*2.5*		
Oct-03	*3.8*	*1.5*	*1.8*	*2.7*	*2.1*	*2.6*	*2.3*		
May-04	*3.8*	*1.5*	*0.4*	*3.6*	*2.9*	*3.1*	*3.0*	*2.8*	
Oct-04	*3.8*	*1.5*	*0.4*	*3.3*	*3.4*	*2.8*	*2.8*	*2.9*	
May-05	*3.5*	*2.8*	*3.5*	*3.7*	*2.9*	*2.7*	*2.4*	*2.7*	*2.5*
Population Growth									
Oct-02	*0.5*	*0.4*	*0.5*	*0.5*	*0.5*	*0.5*			
May-03	*0.5*	*0.6*	*0.7*	*0.5*	*0.4*	*0.5*	*0.5*		
Oct-03	*0.5*	*0.6*	*0.7*	*0.5*	*0.3*	*0.3*	*0.4*		
May-04	*0.5*	*0.6*	*0.4*	*0.4*	*0.7*	*0.4*	*0.4*	*0.5*	
Oct-04	*0.5*	*0.6*	*0.4*	*0.3*	*0.3*	*0.3*	*0.5*	*0.5*	
May-05	*0.5*	*0.6*	*0.4*	*0.3*	*0.3*	*0.2*	*0.5*	*0.5*	*0.4*
Employment Growth									
Oct-02	*0.1*	*-0.9*	*0.5*	*1.9*	*1.2*	*1.0*			
May-03	*1.1*	*-0.8*	*0.2*	*0.9*	*1.7*	*1.3*	*1.1*		
Oct-03	*1.1*	*-0.8*	*1.4*	*0.4*	*1.2*	*1.1*	*1.0*		
May-04	*1.1*	*-0.9*	*-0.2*	*1.1*	*1.7*	*1.3*	*1.0*	*1.0*	
Oct-04	*1.1*	*-0.9*	*-0.2*	*1.1*	*1.9*	*1.1*	*0.9*	*1.1*	
May-05	*1.1*	*-0.9*	*0.0*	*1.4*	*1.6*	*1.2*	*0.7*	*0.9*	*1.1*
Unemployment Rate									
Oct-02	*3.6*	*4.0*	*4.3*	*4.1*	*4.0*	*3.9*			
May-03	*3.6*	*3.8*	*3.8*	*3.6*	*3.3*	*3.2*	*3.1*		
Oct-03	*3.6*	*3.8*	*4.2*	*4.5*	*4.2*	*4.0*	*3.9*		
May-04	*3.6*	*3.7*	*4.6*	*4.6*	*4.4*	*4.3*	*4.2*	*4.1*	
Oct-04	*3.6*	*3.7*	*4.6*	*3.5*	*3.4*	*3.4*	*3.2*	*3.1*	
May-05	*3.3*	*4.0*	*4.5*	*3.7*	*3.4*	*3.4*	*3.4*	*3.3*	*3.2*
Personal Income Growth									
Oct-02	*4.7*	*2.9*	*3.2*	*4.6*	*4.5*	*4.5*			
May-03	*5.0*	*3.2*	*2.8*	*3.7*	*4.6*	*4.7*	*4.6*		
Oct-03	*5.2*	*3.1*	*4.4*	*3.5*	*3.5*	*3.8*	*4.0*		
May-04	*5.2*	*3.1*	*3.9*	*4.0*	*3.9*	*3.9*	*4.3*	*4.3*	
Oct-04	*5.2*	*3.3*	*4.1*	*5.4*	*4.1*	*3.6*	*4.2*	*4.3*	
May-05	*5.4*	*2.6*	*3.6*	*6.0*	*6.2*	*4.2*	*4.1*	*4.2*	*4.1*
Avg. Home Sale Price Growth									
Jan-03	*8.1*	*8.0*	*1.0*	*1.1*	*2.2*	*2.5*	*2.2*		
May-03	*7.9*	*7.7*	*2.2*	*-0.2*	*1.8*	*2.9*	*2.5*		
Oct-03	*7.9*	*7.7*	*3.7*	*0.9*	*0.9*	*3.0*	*2.9*		
May-04	*7.8*	*7.6*	*7.2*	*6.8*	*4.6*	*3.4*	*3.5*	*3.2*	
Oct-04	*7.9*	*7.6*	*7.2*	*8.8*	*-0.1*	*4.4*	*5.0*	*4.8*	
May-05	*7.9*	*7.6*	*7.2*	*13.4*	*6.3*	*2.1*	*0.3*	*2.0*	*3.5*

State Revenues

- Aggregate FY05 revenues exceeded projected levels by about $50 million, with most of the gain in Personal Income (+$32.4M), Corporate (+$10.0M) and Estate (+$5.5M) receipts. While explanations for this overage are speculative at this time, with limited State (especially) and Federal source data available, initial analysis, as described above, points to some combination of the booming Vermont real estate market and an especially favorable environment for business profits as the most likely causes.

- As indicated in the January and several prior Economic and Revenue Outlooks, Vermont real estate markets have been gathering steam for some time. The prior July and January Outlooks identified "bubble-like" conditions in both housing price appreciation and tax revenue sources associated with speculative real estate activity. The below chart is an update of the 6 month version included in the January Outlook with full fiscal year comparisons of key tax sources affected by real estate activity. These are probably the best and most timely barometers of the recent surge in real estate-related economic activity in the State and point to extraordinary market conditions.



- A doubling over the past two years in revenues from the Land Gains and Land Use Change taxes indicates strong development pressures as price appreciation spurs new development. The growth in real estate withholding taxes confirms the presence of significant capital gains associated with the acceleration in property transactions (as well as higher refunds next year). The missing components of this analysis (and likely the source of the largest tax impact), as indicated by the question marks in the preceding chart, are taxable capital gains generated by real estate sales.

- Detailed Property Transfer tax (PTT) information, however, can help frame the potential magnitude of such gains. To this end, Bill Smith, Tax Department Statistician and Policy Analyst, assembled unique data on nearly all FY01 to FY05 PTT transactions. We were able to segment these data by transactions involving the purchase of a primary residence vs. other transactions based on the differential tax rate applied to primary residences. Since tax liabilities from capital gains on primary residences can often be avoided entirely, we were particularly interested in non-primary residence sales and potential capital gains from these sales.

- These data show that the value of all real estate sold in Vermont in FY05 exceeded $4 billion. More than half of this ($2.1 billion) was associated with properties that were not primary residences. The volume of transactions over the past several years (about 7.4%) suggests an average property holding period of about 13.5 years. By applying relevant property appreciation data to this period, we estimate a basis for these transactions to be about $1.24 billion, with taxable gains of approximately $870 million. Depending upon assumptions regarding effective marginal tax rates, these gains could generate $25M to $35M in tax revenues in FY05. Of significance, this figure is more than 70% higher than FY04. Along with some tax liability generated by primary residence sales, taxable gains associated with real estate transactions could account for as much as 40% or more of the FY05 revenue windfall.

- As noted above, current real estate market conditions are projected to continue through FY06 before declining in late FY07 and FY08. The vulnerability of this sector to decline, especially in FY07 and FY08 requires a note of budgetary caution. Like the stock market-related capital gains in the late 1990s, the revenue windfall directly associated with this sector should not be considered "permanent." As occurred in the late 1980s, conditions could develop that would lead to a rapid real estate market correction with far-reaching tax and other implications. Because of this, a close monitoring of this sector is recommended, with immediate budget review if unfavorable conditions begin to emerge.

- Based on these assumptions, **Personal income** receipts are expected to grow more than 3% in FY06 with growth slowing to about 2% in FY07. Continued market acceleration could generate substantial upside potential in FY06, however, any such gains would be even more vulnerable to reversal in FY07 and FY08.

- **Sales and use** tax revenues closed FY05 within about 1% of projections, totaling $310.8 million. Year over year growth of 14.8% in FY05 was largely the result of prior tax rate changes and the inclusion of telecommunications tax revenue in the broader sales tax category. Sales and use tax revenues in FY06 and FY07 will benefit from a Tax Department policy change enforcing the collection of sales taxes on college textbooks in FY06 and beyond (yielding approximately $1 million per year in additional revenue) and the start of the Streamlined Sales Tax Agreement (see below).

The Streamlined Sales Tax: Preliminary Estimates Now Included

The Streamlined Sales Tax Agreement (SSTA) is a multi-state endeavor to simplify and streamline state sales and use taxes in order to facilitate the collection of such taxes from out-of-state vendors – notably mail order and internet retailers.

The Agreement is now expected to be "current law" in Vermont effective April 1, 2006, and will affect revenues in FY06 and beyond.

Of critical importance, out-of-state vendor payments are still voluntary until and unless Congress acts to overturn the Bellas Hess and Quill decisions. Federal legislation to this effect has been introduced but is not current law, nor are prospects for future passage certain. Accordingly, all current estimates are based on voluntary vendor participation and assume minimal impacts as a result of this.

Current estimates anticipate a 10% voluntary vendor participation rate with an effective April 1, 2006 start date and about $200K in FY06 revenues from these vendors. Full year FY07 receipts from SST vendors should yield about $1.3 million. Changes in the taxation of beer, telecommunications and the current clothing exemption necessary to be in compliance with the new system are expected to add about $1.1 million in FY06 and about $7.2 million in FY07.

It should be noted that current SSTA revenue estimates are highly uncertain. Revenue estimates from the initial program participants (who will launch the program on October 1, 2005) vary by a factor of about 9(!), based on assorted assumptions. The Joint Fiscal Office and Tax Department will be in close contact with analysts from these states between October and April in order to refine our estimates based on actual program experience.

- With corporate profits reaching record levels, **Corporate Income** tax revenues in FY05 did the same, topping $60 million for the first time ever. With refunds likely to accelerate in FY06 and both State and Federal tax changes likely to lower corporate revenues, FY06 is projected to decline to about $53 million with a further decline to about $50 million in FY07.

Corporate income projections include estimated impacts of the unitary tax reform legislation and accompanying rate reductions passed during the 2004 legislative session. These impacts total -$1.3 million in FY06 (which includes the first phase of the two-staged tax rate reductions and the change in the weighting of the sales factor) and -$1.7 million in FY07 (comprised of +$2.0 million from unitary reporting, -$3.2 million from the second phase of the rate reductions and -$0.6 million resulting from the change in the weighting of the sales factor). The Tax Department is still in the process of refining some of the revenue estimates associated with this legislation and may have modified impact estimates over the coming months.

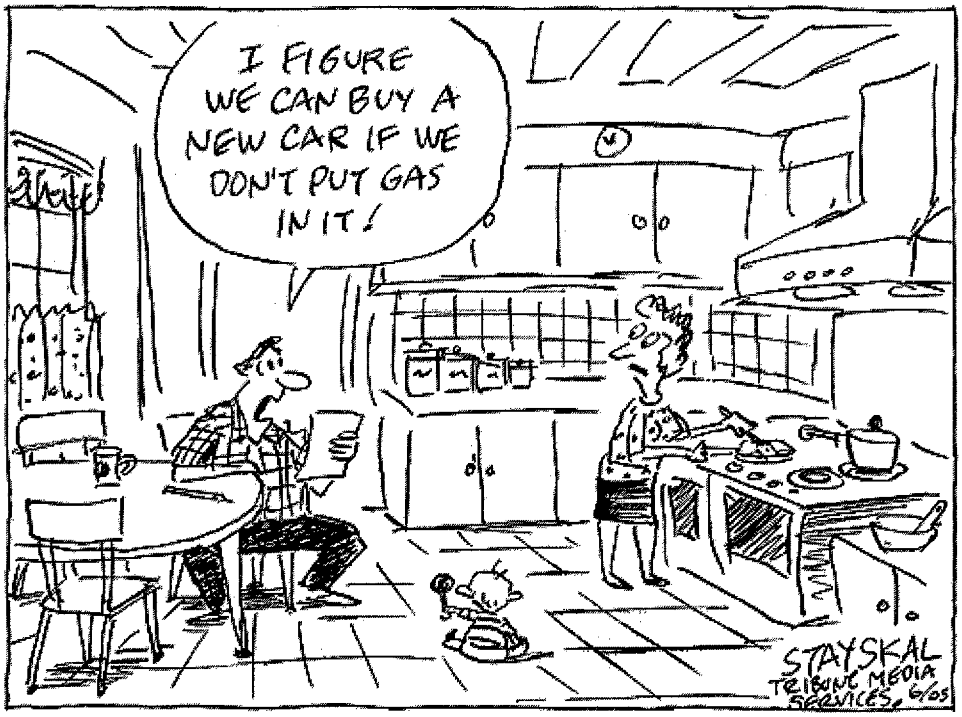
The current consensus forecast also includes impact estimates of the recently enacted federal legislation entitled the "American Jobs Creation Act of 2004." Originally designed as a bill to compensate exporters for repeal of a contested $50 billion U.S trade subsidy, the bill became a catchall for special interest handouts. The complex 650 page bill includes provisions catering to cruise lines, shipbuilders, tobacco growers, railroads, NASCAR race tracks and many, many others. Although designed to help "manufacturers," it extends the definition of such to include mining, oil extraction, engineering and, notably, the "Starbucks provision" for coffee roasting "manufacturers."

Early analysis of this legislation indicates the Act could reduce U.S. corporate tax revenues by as much as $80 billion over the next 10 years. Preliminary Vermont Tax Department analysis suggests net Vermont revenue losses of about $1 million in both FY06 and FY07, however, under some sets of assumptions, impacts could be nearly double these levels. Faced with uncertain potential revenue loss, about 15 states have acted to or plan to decouple from major provisions in the new law.

- **Lottery** revenues closed FY05 more than $0.7M above target as creative Instant Game revenues offset a decline in Powerball receipts. Although long term prospects for Lottery revenues are limited by existing game fatigue, marketing restrictions and limited business development options, annual receipts in any given year could vary widely based on random Powerball jackpot sizes, other new games and associated promotional activities.

- **The Largest Transportation Fund** revenue sources were severely impacted by soaring energy and gasoline prices over the past year. Because both **gasoline** and **diesel** taxes are unit taxes levied on gallonage, when consumption declines in the face of price increases, tax revenues follow. Gas and diesel tax revenues are expected to have subdued growth in FY06 and FY07, as oil prices ease but remain relatively high and volatile. **Motor vehicle purchase and use taxes** were also negatively affected by the rapid run up in gasoline prices in FY05. Markedly higher gas prices add significant lifetime costs to low MPG car ownership and gave many buyers pause. This, in turn, caused a pause in

MVP&U tax revenues in FY05, with total revenues declining for the first time in more than a decade. With continued uncertainty surrounding gasoline prices and existing vehicle fleets that are still dependent upon low MPG models, growth in MVP&U revenues is expected to be below trend in both FY06 and FY07.



- **Motor vehicle fee** revenues will benefit from vehicle inspection rate changes (approximately $1.7 million in FY06 and beyond) and higher than usual levels of 2-year vehicle registrations, which are expected to comprise more than 12% of all FY06 vehicle registrations. **Other T-Fund Revenue** will include approximately $0.3M in additional revenue transfers from the G-Fund associated with interest on the T-Fund Stabilization Reserve beginning in FY07.

Methodological Notes and Other Comments

- In response to the complex economic and statistical issues raised in this and prior forecasts, and the relatively short elapsed time between the release of relevant fiscal year tax data and the required completion of this analysis, it is our consensus staff recommendation that the statutory requirement that the Emergency Board meet on or before July 15 be extended by a period of approximately two weeks, to July 31. Whereas the January forecasts are essential early in the legislative session, the July forecast is not as time-sensitive. We believe the statutory option to extend the period of time available for analysis of year-end fiscal data could significantly improve the analysis and forecasts performed herein at no additional cost to the State.

- This analysis has benefited significantly from the input and support of Tax Department and Joint Fiscal Office personnel. In the Joint Fiscal Office, Sara Teachout and Mark Perrault have contributed to numerous policy and revenue impact analyses and coordinated JFO forecast production and related legislative committee support functions. Sandy Noyes has organized and maintains large tax and other databases in support of JFO revenue forecasting activities. Neil Schickner has provided Transportation Fund data and analyses. In the Tax Department, Susan Mesner, Tax Department Economist, has made important analytic contributions to many tax and revenue forecasts, including tax law change analyses. George Phillips, Tax Department Policy Analyst, has provided critical information on a wide range of tax and revenue issues, and Bill Smith Tax Department Statistician and Policy Analyst has provided a wealth of statistical and related background information from the detailed tax databases he has developed and maintained. Our thanks to all of the above for their many contributions to this analysis.

- The analysis in support of JFO economic and revenue projections are based on both statistical and econometric models, and professional analytic judgment. All models are based on 27 years of data for each of the 25 General Fund categories (three aggregates), 24 years of data for each of the Transportation Fund categories (one aggregate), and 6 to 27 years for each of the Education Fund categories. The analyses employed includes seasonal adjustment using the X-11 and X-12 Census methods, various moving average techniques (such as Henderson Curves, etc.), Box-Jenkins ARIMA type models, pressure curve analysis, comparable-pattern analysis of monthly, quarterly and half year trends for current year estimation, and behavioral econometric forecasting models.

- Because the State does not currently fund an internal State or U.S. macro-economic model, this analysis relies primarily on macro-economic models from Economy.com and the New England Economic Partnership (NEEP). The NEEP forecast for Vermont is managed by Jeff Carr, of Economic & Policy Resources, Inc., who is also the current Administration economist. Since October of 2001, input and review of initial Vermont NEEP model design and output prior to its release has been provided by the JFO Consulting Economist and other prominent Vermont economists. An input-output model for the State of Vermont from Regional Economic Models, Inc. (REMI) is also maintained and managed by the JFO for use in selected economic impact and simulation analyses used herein.

- The Consensus JFO and Administration forecasts are developed following discussion, analysis and synthesis of independent revenue projections produced by Administration and Joint Fiscal Office economists.

TABLE 1A - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
SOURCE* GENERAL FUND REVENUE FORECAST UPDATE
Consensus JFO and Administration Forecast - July 2005

**** SOURCE G-FUND** revenues are prior to all E-Fund allocations and and other out-transfers. Used for analytic and comparative purposes only.*

	FY 2002 (Actual)	% Change	FY 2003 (Actual)	% Change	FY 2004 (Actual)	% Change	FY 2005 (Preliminary)	% Change	FY 2006 (Forecast)	% Change	FY 2007 (Forecast)	% Change
REVENUE SOURCE												
Personal Income**	$407.8	-10.2%	$411.3	0.9%	$429.8	4.5%	$500.5	16.4%	$517.1	3.3%	$528.0	2.1%
Sales & Use***	$229.8	0.4%	$232.4	1.1%	$272.2	17.1%	$310.8	14.2%	$323.3	4.0%	$339.6	5.0%
Corporate	$32.0	-36.7%	$35.3	10.5%	$55.7	57.7%	$60.4	8.3%	$53.2	-11.9%	$50.1	-5.8%
Meals and Rooms	$99.4	2.3%	$102.0	2.6%	$108.5	6.4%	$113.0	4.1%	$116.3	3.0%	$119.4	2.7%
Cigarette	$24.5	-0.2%	$43.4	77.0%	$49.8	14.9%	$46.1	-7.5%	$44.1	-4.3%	$42.3	-4.1%
Liquor	$10.6	0.4%	$11.2	5.7%	$11.7	4.5%	$12.5	7.1%	$12.8	2.2%	$13.3	3.9%
Insurance	$34.9	8.9%	$42.5	21.7%	$47.0	10.7%	$50.3	7.0%	$52.4	4.1%	$54.2	3.4%
Telephone	$10.4	0.0%	$10.1	-2.6%	$10.4	2.5%	$10.5	1.6%	$10.6	0.8%	$10.7	0.9%
Beverage	$5.0	3.1%	$5.1	1.3%	$5.2	2.9%	$5.3	2.0%	$5.4	1.8%	$5.5	1.9%
Electric	$2.8	-9.9%	$2.6	-8.3%	$2.8	7.4%	$2.6	-6.0%	$2.6	0.0%	$2.6	0.0%
Estate	$13.9	9.2%	$15.6	12.4%	$14.7	-5.7%	$18.9	28.2%	$16.8	-10.9%	$14.5	-13.7%
Property	$25.0	17.0%	$27.5	10.1%	$34.0	23.3%	$45.2	33.2%	$45.4	0.4%	$40.6	-10.6%
Bank	$5.3	-39.6%	$6.3	18.4%	$6.5	3.2%	$8.6	32.0%	$9.9	15.3%	$10.2	3.0%
Other Tax	$2.0	-2.7%	$2.7	36.3%	$4.4	59.8%	$6.6	52.1%	$6.7	1.3%	$5.5	-17.9%
Total Tax Revenue	$903.4	-6.0%	$948.0	4.9%	$1052.7	11.0%	$1191.2	13.2%	$1216.6	2.1%	$1236.5	1.6%
Business Licenses	$2.6	0.5%	$2.7	5.9%	$2.7	0.6%	$2.8	2.9%	$2.9	3.3%	$3.0	3.4%
Fees	$11.2	-5.9%	$10.7	-4.3%	$11.3	6.1%	$12.5	9.9%	$12.9	3.5%	$13.3	3.1%
Services	$1.2	4.0%	$2.0	60.1%	$1.6	-18.8%	$2.0	22.9%	$2.0	1.0%	$2.1	5.0%
Fines	$2.5	31.8%	$3.5	36.2%	$7.4	114.1%	$4.4	-40.2%	$4.5	1.6%	$4.6	2.2%
Interest	$3.2	-60.5%	$1.2	-63.6%	$0.2	-86.2%	$1.2	662.0%	$2.5	103.0%	$4.0	60.0%
Special Assessments	$0.1	-85.5%	$0.1	180.5%	$0.0	-73.0%	$0.0	-74.7%	$0.0	NM	$0.0	NM
Lottery	$16.9	-3.1%	$15.5	-8.0%	$20.3	30.7%	$20.1	-1.0%	$19.8	-1.4%	$19.3	-2.5%
All Other	$0.7	5.0%	$1.6	141.4%	$0.5	-71.4%	$0.7	53.5%	$0.7	4.9%	$0.8	3.4%
Total Other Revenue	$38.3	-13.1%	$37.3	-2.8%	$44.0	18.1%	$43.7	-0.8%	$45.3	3.7%	$47.1	3.8%
TOTAL GENERAL FUND	**$941.7**	**-6.3%**	**$985.3**	**4.6%**	**$1096.7**	**11.3%**	**$1234.9**	**12.6%**	**$1261.9**	**2.2%**	**$1283.6**	**1.7%**

** Includes net $29.3M transfer from FY01 to FY02 due to processing delays in FY01 personal income tax returns
*** Includes Telecommunications Tax, which is no longer reported separately

TABLE 1 - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
AVAILABLE GENERAL FUND REVENUE FORECAST UPDATE
Consensus JFO and Administration Forecast - July 2005

CURRENT LAW BASIS

including all Education Fund allocations and other out-transfers [redacted]	**FY 2002** *(Actual)*	% Change	**FY 2003** *(Actual)*	% Change	**FY 2004** *(Actual)*	% Change	**FY 2005** *(Preliminary)*	% Change	**FY 2006** *(Forecast)*	% Change	**FY 2007** *(Forecast)*	% Change
REVENUE SOURCE												
Personal Income*	$407.8	-10.2%	$411.3	0.9%	$429.8	4.5%	$500.5	16.4%	$517.1	3.3%	$528.0	2.1%
Sales and Use**	$229.8	0.4%	$232.4	1.1%	$272.2	17.1%	$207.2	-23.9%	$215.5	4.0%	$226.4	5.0%
Corporate	$25.9	-36.7%	$28.6	10.5%	$45.2	57.8%	$60.4	33.6%	$53.2	-11.9%	$50.1	-5.8%
Meals and Rooms	$81.1	2.2%	$83.1	2.6%	$88.4	6.3%	$113.0	27.8%	$116.3	3.0%	$119.4	2.7%
Cigarette	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM
Liquor	$10.6	0.4%	$11.2	5.7%	$11.7	4.5%	$12.5	7.1%	$12.8	2.2%	$13.3	3.9%
Insurance	$34.9	8.9%	$42.5	21.7%	$47.0	10.7%	$50.3	7.0%	$52.4	4.1%	$54.2	3.4%
Telephone	$10.4	0.0%	$10.1	-2.6%	$10.4	2.5%	$10.5	1.6%	$10.6	0.8%	$10.7	0.9%
Beverage	$5.0	3.1%	$5.1	1.3%	$5.2	2.9%	$5.3	2.0%	$5.4	1.8%	$5.5	1.9%
Electric	$2.8	-9.9%	$2.6	-8.3%	$2.8	7.4%	$2.6	-6.0%	$2.6	0.0%	$2.6	0.0%
Estate***	$13.3	4.2%	$15.6	17.8%	$14.7	-5.7%	$18.9	28.2%	$16.8	-10.9%	$14.5	-13.7%
Property	$9.9	41.6%	$12.5	25.4%	$11.1	-11.0%	$14.8	33.1%	$14.1	-4.2%	$13.4	-5.3%
Bank	$2.2	-39.6%	$2.6	18.4%	$2.7	3.2%	$8.6	216.6%	$9.9	15.3%	$10.2	3.0%
Other Tax	$2.0	-2.7%	$2.7	36.3%	$4.4	59.8%	$6.6	52.1%	$6.7	1.3%	$5.5	-17.9%
Total Tax Revenue	$835.7	-6.1%	$860.3	2.9%	$945.5	9.9%	$1011.1	6.9%	$1033.5	2.2%	$1053.8	2.0%
Business Licenses	$2.6	0.5%	$2.7	5.9%	$2.7	0.6%	$2.8	2.9%	$2.9	3.3%	$3.0	3.4%
Fees	$8.6	-7.2%	$8.2	-5.5%	$8.9	8.8%	$12.5	40.4%	$12.9	3.5%	$13.3	3.1%
Services	$1.2	4.0%	$2.0	60.1%	$1.6	-18.8%	$2.0	22.9%	$2.0	1.0%	$2.1	5.0%
Fines	$2.5	31.8%	$3.5	36.2%	$7.4	114.1%	$4.4	-40.2%	$4.5	1.6%	$4.6	2.2%
Interest	$3.1	-61.6%	$1.5	-51.5%	$0.4	-73.4%	$1.8	348.1%	$2.5	41.7%	$3.5	40.0%
Special Assessments	$0.1	-85.5%	$0.1	180.5%	$0.0	-73.0%	$0.0	-74.7%	$0.0	NM	$0.0	NM
All Other	$0.7	5.0%	$1.6	141.4%	$0.5	-71.4%	$0.7	53.5%	$0.7	4.9%	$0.8	3.4%
Total Other Revenue	$18.7	-21.7%	$19.5	4.2%	$21.5	10.2%	$24.1	12.3%	$25.5	5.7%	$27.3	6.8%
TOTAL GENERAL FUND	**$854.4**	**-6.5%**	**$879.8**	**3.0%**	**$967.0**	**9.9%**	**$1035.3**	**7.1%**	**$1059.0**	**2.3%**	**$1081.0**	**2.1%**

*Includes net $29.3M transfer from FY01 to FY02 due to processing delays; **Includes Telecommunications Tax, which is no longer reported separately; *** Excludes transfers to the Higher Education Trust Fund of $2.4M in FY05 and $0.7M in FY02

TABLE 2A - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
SOURCE* TRANSPORTATION FUND REVENUE FORECAST UPDATE
Consensus JFO and Administration Forecasts - July 2005

SOURCE T-FUND *revenues are prior to all E-Fund allocations and and other out-transfers. Used for analytic and comparative purposes only.*

REVENUE SOURCE	FY 2002 (Actual)	% Change	FY 2003 (Actual)	% Change	FY 2004 (Actual)	% Change	FY 2005 (Preliminary)	% Change	FY 2006 (Forecast)	% Change	FY 2007 (Forecast)	% Change
Gasoline	$63.1	0.2%	$64.8	2.6%	$65.1	0.5%	$65.5	0.7%	$66.5	1.5%	$67.7	1.8%
Diesel	$16.6	-6.7%	$16.4	-1.3%	$18.0	9.7%	$15.5	-13.8%	$16.8	8.2%	$17.3	3.0%
Purchase and Use*	$80.9	8.3%	$82.1	1.5%	$86.2	5.0%	$84.1	-2.5%	$86.5	2.9%	$89.1	3.0%
Motor Vehicle Fees	$47.6	16.9%	$51.6	8.3%	$55.2	7.0%	$56.1	1.6%	$60.0	7.0%	$60.2	0.3%
Other Revenue**	$21.8	76.8%	$14.6	-33.3%	$15.2	4.3%	$15.7	3.7%	$16.3	3.6%	$17.1	4.9%
TOTAL TRANS. FUND	**$230.1**	**10.3%**	**$229.5**	**-0.3%**	**$239.7**	**4.5%**	**$237.0**	**-1.1%**	**$246.1**	**3.9%**	**$251.4**	**2.2%**

TABLE 2 - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
AVAILABLE TRANSPORTATION FUND REVENUE FORECAST UPDATE
Consensus JFO and Administration Forecast - July 2005

CURRENT LAW BASIS
including all Education Fund allocations and other out-transfers

REVENUE SOURCE	FY 2002 (Actual)	% Change	FY 2003 (Actual)	% Change	FY 2004 (Actual)	% Change	FY 2005 (Preliminary)	% Change	FY 2006 (Forecast)	% Change	FY 2007 (Forecast)	% Change
Gasoline	$52.6	0.2%	$54.0	2.6%	$54.3	0.5%	$65.5	20.8%	$66.5	1.5%	$67.7	1.8%
Diesel	$16.6	-6.7%	$16.4	-1.3%	$18.0	9.7%	$15.5	-13.8%	$16.8	8.2%	$17.3	3.0%
Purchase and Use*	$67.7	8.6%	$68.7	1.5%	$71.9	4.7%	$56.0	-22.1%	$57.7	2.9%	$59.4	3.0%
Motor Vehicle Fees	$47.6	16.9%	$51.6	8.3%	$55.2	7.0%	$56.1	1.6%	$60.0	7.0%	$60.2	0.3%
Other Revenue**	$21.8	76.8%	$14.6	-33.3%	$15.2	4.3%	$15.7	3.7%	$16.3	3.6%	$17.1	4.9%
TOTAL TRANS. FUND	**$206.4**	**11.1%**	**$205.2**	**-0.5%**	**$214.6**	**4.5%**	**$208.9**	**-2.6%**	**$217.3**	**4.0%**	**$221.7**	**2.0%**

*As of FY04, Motor Vehicle Purchase and Use includes Motor Vehicle Rental Tax revenues, restated with estimated values for historical data; **Beginning in FY07, Other Revenue includes interest from the T-Fund Stabilization Reserve

TABLE 3 - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
AVAILABLE EDUCATION FUND* REVENUE FORECAST UPDATE
(Partial Education Fund Total - Includes Source General and Transportation Fund Allocations Only)
Consensus JFO and Administration Forecasts - July 2005

CURRENT LAW BASIS

** Source General and Transportation Fund taxes allocated to or associated with the Education Fund only.*	**FY 2002** *(Actual)*	% Change	**FY 2003** *(Actual)*	% Change	**FY 2004** *(Actual)*	% Change	**FY 2005** *(Preliminary)*	% Change	**FY 2006** *(Forecast)*	% Change	**FY 2007** *(Forecast)*	% Change
GENERAL FUND												
Meals and Rooms**	$18.3	2.3%	$18.8	3.0%	$20.1	6.8%	$0.0	NM	$0.0	NM	$0.0	NM
Sales & Use***	$14.9	8.6%	$13.7	-8.0%	$16.4	19.2%	$103.6	533.1%	$107.8	4.0%	$113.2	5.0%
Bank	$3.1	-39.6%	$3.7	18.4%	$3.8	3.2%	$0.0	NM	$0.0	NM	$0.0	NM
Corporate	$6.1	-36.7%	$6.7	10.5%	$10.5	57.1%	$0.0	NM	$0.0	NM	$0.0	NM
Security Registration Fees	$2.5	-1.0%	$2.5	-0.4%	$2.5	-2.5%	$0.0	NM	$0.0	NM	$0.0	NM
Interest	$0.2	-21.4%	($0.3)	NM	($0.2)	NM	($0.5)	NM	$0.0	NM	$0.2	NM
Lottery	$16.9	-3.1%	$15.5	-8.0%	$20.3	30.7%	$20.1	-1.0%	$19.8	-1.4%	$19.3	-2.5%
TRANSPORTATION FUND												
Gasoline	$10.5	0.2%	$10.8	2.6%	$10.8	0.5%	$0.0	NM	$0.0	NM	$0.0	NM
Purchase and Use****	$13.2	6.9%	$13.4	1.5%	$14.3	6.2%	$28.0	96.2%	$28.8	2.9%	$29.7	3.0%
TOTAL	**$85.8**	**-4.2%**	**$84.9**	**-1.0%**	**$98.5**	**15.9%**	**$151.2**	**53.5%**	**$156.4**	**3.5%**	**$162.4**	**3.8%**

** Note: After Travel Tourism out-transfer of $1.56 million ***Includes Telecommunications Tax, which is no longer reported separately ****Includes Motor Vehicle Rental revenues, restated.

07/08/04

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JFC members	10		10
JFO staff :			
SB, MB, CB, BB, GC, SK, SK	10		10
MP, NS, ST			
Other legislative:			
Speaker ~~Freed~~ Symington	1		
Bill Russell	1		1
Rachel Levin	1		1
Andrew Savage		1	
Administration:			
Secretary of Administration	2		
F&M Commissioner	1		1
Otto Trautz	1		1
Brad Ferland			1
Human Resources Commissioner		1	
Rossi Conklin (@ 110 State Street)			1
Molly Ordway (@ 144 State Street)			1
~~Raylene Jacobs, VTrans~~		~~1~~	
State Auditor	1		
State Treasurer	1		
Agencies/department(s)		1	On request
BGS - T. Walles		1	
BISHCA - Crowley & Barton		1	
Health - Jarris, Blake			
Sleen via Email			
Commission on Women		1	
VSEA		1	
Extras (press & meeting)	8		
TOTAL	36	Extra agendas	37

PRELIMINARY AGENDA

Joint Fiscal Committee
Thursday, July 14, 2005
<u>10:00</u> a.m. – Room 11

10:00 a.m.	1. Call to order
	2. Approval of minutes of November 29, 2004 and February 18, 2005 *[enclosures]*
10:10 a.m.	3. Duxbury land sale [Tasha Wallis, Commissioner of Buildings and General Services] *[enclosure]*
10:25 a.m.	4. Oversight Items:
10:25	a. Banking, Insurance, Securities and Health Care Administration [BISHCA] – transfer of unencumbered balances [John Crowley, Commissioner] *[enclosure: excerpt from Act 6; proposal will be submitted at the meeting]*
10:35	b. Global Commitment Update [Joshua Slen, Director of Office of Vermont Health Access]
10:45	c. Vermont State Hospital Update [Health Commissioner Jarris and/or Deputy Commissioner of Mental Health Services Blake]
11:00	5. Revenues and economic outlook [Tom Kavet, JFO revenue and economic consultant]
11:30	6. Fiscal Year 2004 closeout, including closeout budget issues [Commissioner Reardon, Department of Finance & Management]
11:50	7. In-Depth Budgeting Pilot Program department identification pursuant to Section 262 of Act 71 of 2005 [Commissioner Reardon] *[enclosure: Sec. 262]*
12:00	8. Joint Fiscal Officer's report, including summer studies and other staff projects [Stephen Klein, Chief Fiscal Officer] *[enclosure]*
12:15	9. Future meeting dates [tentative: Thursday, Sept.15 and Thursday, Nov. 17]
	Adjournment

<u>Items for information [no action required]</u>

a. Agency of Human Services report on Medicaid program transfers *[enclosure: Sec. 104c. of Act 71]*
b. Quarterly reports of Federal Energy Regulatory Commission *[enclosures]*

<u>Emergency Board Scheduled at 2:00 PM in the Pavilion</u>

MINUTES

Joint Fiscal Committee
Meeting of November 29, 2004

Senator Peter Welch, Chair, called the meeting of the Joint Fiscal Committee to order at 9:45 a.m. in Room 11, State House.

Also present: Senators Bartlett, Bloomer, and Cummings
Representatives Marron, Rusten, Schiavone, and Westman

Others attending the meeting included Representative Martha Heath; Joint Fiscal Office staff; Administration officials and staff; Elizabeth Pierce, Deputy State Treasurer; representatives of various advocacy groups; the news media; and others.

APPROVAL OF MINUTES OF PRIOR MEETING:

1. <u>On a motion by Representative Marron, the Committee approved the minutes of the September 15, 2004 meeting as submitted.</u>

FISCAL UPDATES:

2. Robert Hofmann, Commissioner of Finance and Management, reported briefly on several subjects, as follows:

a. Fiscal year 2005 revenues: To date, General Fund revenues in fiscal year 2005 exceed the official forecast by $14.7 million, or 4.7%; and they are up $23.1 million, or 7.5%, compared to the same period last year. Transportation Fund revenues essentially are static at just a $300,000 increase, or .5%, over the target figure and $600,000 (.8%) over the prior year. For the Education Fund, Mr. Hofmann reported only on the non-property tax sources. Due primarily to sales tax receipts on vehicle purchases, they are up $1.4 million (2.9%) over forecast, and $18.9 million (59.5%) above prior year receipts.

b. Fiscal Year 2005 budget adjustments: Medicaid expenditures represent the most significant increased pressure in the current fiscal year, $18.5 million over the budgeted figure. The Commissioner alerted the Committee to the likelihood that an additional infusion of funds will be necessary. Additional pressures which must be addressed during the upcoming legislative session are in the areas of the departments of Corrections and of Children and Families, and the Vermont State Hospital; along with possible one-time costs for a new attendant care payroll processor for the disabled and elderly who remain at home, the uncollectible Vermont Economic Development Authority (VEDA) receivable which has been discussed with the Joint Fiscal Committee, and an upgrade in the VISION accounting system.

The total of the budget adjustments which the Administration expects to present for legislative action will fall in the high $20 million range, according to the Commissioner.

c. Fiscal year 2006: Initially the Administration instructed State departments to calculate the programmatic impact of a 2% budget reduction next fiscal year. Mr. Hofmann pointed out, however, that there are certain ongoing obligations, such as salaries and fee for space, that increase each year. Thus, with the significant increase in human services needs, departments subsequently have been asked to develop even deeper than 2% program reductions.

d. Financial reporting: Commissioner Hofmann distributed a summary reflecting improvements as well as lapses in the State's financial reporting starting with the fiscal year 2002 closeout. He acknowledged that there are still problems and delays hindering fiscal year 2003 end closeout, which remain an issue with the bond rating agencies. He stressed, however, that very substantial improvements have been made in qualitative and quantitative areas. An example of the latter is that for the first time in history a compilation has been made of the State's fixed assets.

VERMONT ECONOMIC DEVELOPMENT AUTHORITY (VEDA) WRITE-OFF AGREEMENT:

3. As agreed to at the prior meeting, the Administration presented for the Committee's discussion and endorsement a plan for creating an indemnification fund from which disbursements would be made to fund any future Mortgage Insurance Program (MIP) and Financial Access Program (FAP) loss claims. The plan has been developed as a result of the discovery that there has been an asset of nearly two million dollars on the State books relating to a VEDA loan program dating back approximately thirty years, and the determination that it is inaccurate for the State's balance sheet to include that amount as an asset.

Members received a memorandum dated November 10 describing the background and history of the VEDA insurance programs, summarizing their contributions to the state, and setting forth recommendations to address the $1,954,000 million closeout issue outlined at the Committee's past two meetings and to create an indemnification fund to cover possible future MIP and FAP losses. [The memorandum is on file in the Joint Fiscal Office.] While members expressed support for a reserve fund at the September meeting, they did not endorse the proposal presented at that time to divert General Fund monies to underwrite it.

The recommendation presented today, which was approved by the VEDA Board at its September 24, 2004 meeting, was for creation of the indemnification fund to be financed from three sources: existing monies in the two programs;

their future net revenues; and interest payments made by VEDA's Vermont Jobs Fund on its existing $6.2 million of debt to the State.

Beth Pierce, Deputy State Treasurer, again testified in support of creating the reserve fund, pointing out that the purpose in so doing is to further isolate the General Fund from directly incurring any losses. She explained that concerns were raised that failure to do so would be viewed negatively by the State's bond rating agencies. Since the Committee's September meeting there have been conversations on the subject with those agencies, and Ms Pierce indicated that their reaction to the indemnification fund concept has been positive.

The Committee adopted a motion endorsing the three proposals set forth in the "recommendations" section of the November 10 memorandum, as follows:

(a) adjustment of fiscal year 2004 balances by $1,954,000 to reflect expensing of past advances;

(b) creation of an indemnification fund from which disbursements can be made to cover future losses; and

(c) making the state's full faith and credit pledge secondary to the indemnification fund.

In the course of the discussion, the Chair asked David Carter, VEDA's Chief Financial Officer, for historical information on the loan losses under the two VEDA programs, including a list of such loans and an assessment as to why those losses occurred.

VERMONT STATE HOSPITAL(VSH):

4. Dr. Paul Jarris, Commissioner of Health, and Dr. Susan Wehry, Deputy Commissioner of Health for Mental Health Services, presented information on the current status of federal recertification of the Vermont State Hospital.

Representatives of the Centers for Medicare and Medicaid Services (CMS) returned to the State Hospital on November 17 for their final review related to recertification. There was a finding of one minor deficiency for which a plan of correction was submitted. CMS accepted the plan and verbally agreed to restore funding to the State Hospital as of November 24.

Dr. Wehry observed that the fiscal year 2005 budget assumed 50% lost federal funding through September. With the newly-confirmed November recertification date, however, at a revenue loss of $330,000 per month, an additional $660,000 in State funds will be required beyond that budgeted for the current fiscal year.

Commissioner Jarris brought the members up to date on emergency billing restrictions, reminding them that State officials had estimated making up as much as 50% of the losses due to decertification could be made up through emergency billing. Vermont had interpreted emergency billing as covering clients who are both a hazard to themselves as well as to someone else. CMS ultimately concluded, however, that emergency billing applies only when an individual is a danger to him or herself. Although Vermont disagrees with that determination, it stands.

A second issue regarding emergency billing has to do with the enrollment date for emergency billing, and unfortunately the State was unable to prevail in its position. As a result , there is a $1.47 million shortfall in the VSH budget.

The Commissioner also talked about progress in negotiations for a contract to improve clinical psychiatric services at VSH through greater integration with an academic center. State mental health officials are in the process of trying to engage the two organizations which bid in the hopes of achieving a joint response. As he forewarned the Committee previously, the expectation is that the upgraded psychiatric services will cost more than the current arrangements.

After talking about certain other higher-than-expected costs associated with the State Hospital, Dr. Jarris responded at length to an inquiry from Representative Schiavone about methadone treatment. Most of his remarks focused on the seriousness and extent of the problem of drug use among young Vermonters.

IMPLEMENTATION OF ACT 68:

5. Tax Commissioner Thomas Pelham advised the Committee of his department's efforts to notify homeowners with adjusted gross incomes between $47,000 and $88,000 that they might be eligible for income sensitivity payments, and to estimate the number of such taxpayers. He explained why, as part of the process leading to the recommendation of statewide tax property tax rates under Act 68 of 2003 (education funding), it is important to determine as early as possible the number of eligible persons.

His remarks focused on the process by which the department tried to identify and inform people whose benefit under the law would be substantially greater than $10.00. Senator Bartlett expressed appreciation for the Tax Department's outreach.

After brief discussion, Commissioner Pelham advised that the Administration will recommend to the General Assembly that the statewide property tax rate be lowered by two to three cents.

SCHOOL-BASED MEDICAID FUNDING:

6. William Talbott, Deputy Commissioner of Education, presented a report on funding risks to the school-based Medicaid program. He was accompanied by Joshua Slen, Director of the Office of Vermont Health Access, as well as Margaret Schelley and Nichole Tousignant from the Department of Education.

The report was a response to a requirement set forth in Section 183a of Act 122 of 2004 (Federal Year 2005 appropriations act) that the Education Department and the Agency of Human Services

> ...shall analyze the funding risks to the school-based Medicaid program. Such analysis shall include the impact of and responses to potential problems in the transition to the premium-based Medicaid system. It shall also review the funding risks to the school-based programs funded through Medicaid due to the changing environment of federal Medicaid program oversight and Medicaid program modification or changes in or implementation of new rules.

Mr. Talbott's presentation consisted primarily of highlighting information contained in a written report to the Committee, dated November 19, which was distributed to the members prior to the meeting. In essence, the conclusion of the Agency of Human Services and the Education Department was that he transition to a premium-based Medicaid system appears at this time to have had a minimal effect on the School-Based Health Services Program. Local schools and the department nevertheless will continue to monitor participation in the program.

Committee members asked questions about the findings and about related subjects, such as decline in school population and the status of federal funding for special education.

DUXBURY PROPERTY SALE:

7. At the request of the Department of State Buildings and General Services, included on the meeting agenda was a request for Committee approval to sell a parcel of State land and structures located thereon in the towns of Duxbury and Moretown.

The land in question consisted of a combination of three parcels, two located in Duxbury and one in Duxbury and Moretown. Authorization for the sale of the acreage was set forth in Sec. 1(c) of No. 104 of the Acts of 1996, which stipulated that the price "...shall be their fair market value as determined through a publicly advertised sale." Also included was the provision that the sale "...shall be subject to final approval by the Joint Fiscal Committee, which approval may be withheld."

Thomas Torti, Commissioner of State Buildings, and Edward Turbitt, Property Management Director, were at the meeting to present their recommendation on the sale of the property. Committee members prior to the meeting received a memorandum from Commissioner Torti to the Secretary of Administration and the Commissioner of Finance and Management, outlining the steps taken to comply with the requirement for a publicly advertised sale and the underlying criteria applied in evaluating offers; and listing the offers received. One of them has been withdrawn, with three remaining. Their recommendation was that the Committee approve the highest offer, from CBC Construction, Inc. at $404,917.

Mr. Torti and Mr. Turbitt verbally outlined the efforts of the Department of State Buildings and General Services over a long period of time to help establish a local plan for this area in compliance with stipulations contained in Act 102 of 1996. They then amplified the information in the memo pertaining to the bidding process.

Chairman Welch, noting the presence at the meeting of several individuals with interest in this matter, asked the Committee members' input as to how much public testimony they wished to hear. Senator Bartlett expressed the opinion that in a case like this, where the offers are fairly close, the views of the community about the development of the acreage must be considered.

Jill Smith, the Vice Chair of the Duxbury Selectboard although not speaking for that board, was invited by the Chair to address the Committee. She commended Mr.Torti and Mr.Turbitt for their work throughout the process and then talked in some detail about the importance of the property to the local community. With unresolved differences within the community and a lack of consensus on the selectboard as to the best use of the property, she suggested the Committee members familiarize themselves with the various development proposals and evaluate them before making a decision on the Administration's recommendation.

The Chair's reaction was that it would be impractical for this Committee to explore the details and to evaluate the various proposals.

After considerable discussion on the best way to proceed, <u>on a motion from Senator Bartlett, the Committee voted to postpone until its next meeting action on the proposed sale of State property located in Duxbury, with the request that in the meantime the Town of Duxbury shall consider the various options available for purchase and use of the property; and with the further directive that Town officials shall continue this effort in conjunction with the</u>

Department of Buildings and General Services. Senator Cummings was asked to as a liaison from the Joint Fiscal Committee to work with the Duxbury officials on this matter.

JOINT FISCAL OFFICE REPORT:

8. Expanding on one of the subjects addressed in his written report to the Committee, dated November 18, Chief Fiscal Officer Stephen Klein said that the office is contemplating hiring an additional session employee to assist the staff on health care matters.

Mr. Klein also highlighted the interest of the staff in re-engineering the budget development system that would integrate the data base, bill drafting process, and supporting documents. Stephanie Barrett is spearheading this initiative, and she outlined the reasons for seeking improvements and what she has accomplished so far toward realizing that goal. The Fiscal Office contemplates hiring a consultant to assist in this effort.

Committee members encouraged proceeding with the budget development system, expressing their support formally by adopting a motion to that effect offered by Representative Westman.

The meeting was adjourned at 12:05 p.m.

Respectfully submitted:

Virginia F. Catone

Virginia F. Catone
Joint Fiscal Office

MINUTES

Joint Fiscal Committee
Meeting of February 18, 2005

The Joint Fiscal Committee convened at 12:25 p.m. in Room 5, State House. Chief Fiscal Officer Stephen Klein presided over the meeting until the election of a new Chair.

Also present: Senators Bartlett, Cummings and Welch
Representatives Heath, Perry and Westman

Others attending the meeting included Tasha Wallis, Commissioner of Buildings and General Services; Edward Turbitt, Property Management Director; and Jill Smith, Vice Chair of the Duxbury Selectboard.

ELECTION OF CHAIR, VICE CHAIR AND CLERK:

1. a. Chair: Senator Welch nominated Representative Heath to be Chair of the Joint Fiscal Committee for the 2005-06 biennial session. The motion was seconded by Senator Bartlett, whereupon the Committee cast one ballot to unanimously elect Representative Heath as Chair.

At this point Representative Heath assumed the Chair and presided over the remainder of the meeting.

b. Vice Chair: On a motion from Representative Perry, seconded by Representative Severance, the Committee cast one ballot unanimously electing Senator Bartlett as Vice Chair for 2005-06.

c. Clerk: On a motion from Senator Cummings, seconded by Senator Bartlett, Representative Perry also was elected unanimously to the position of Clerk of the Committee for the current biennium.

JOINT FISCAL COMMITTEE AND OFFICE RULES AND POLICIES:

2. Senator Welch moved that the Committee adopt rules and policies for the current biennium as set forth in a manual entitled "Joint Fiscal Committee and Office Policies" dated January 2005. That document, distributed to the members prior to the meeting, contains updated policies pertaining to the conduct of business and staff under which the committee has operated for several biennia. By law (2 V.S.A. §15) the Joint Fiscal Committee is required to adopt rules of procedure as well as policies covering the operation of its personnel.

Chairperson Heath said she would like the Fiscal Officer at a future time to discuss with the committee No. 5 of the Policies just adopted, reading:

Requests for services from legislators other than money committee members will be directed through the Joint Fiscal Committee chair or one of the money committee chairs. Requests for information or facts which do not require research may be addressed to the Joint Fiscal Officer.

There was brief discussion of the policy, during which Mr. Klein observed that although Title 2 V.S.A. §503 delineates whom the Fiscal Office staff may serve, legislative requests are not in fact channeled through the Committee Chair. Senators Welch and Bartlett pointed out that if there were too many requests for services, the provision cited above provides some control and guidance for the Fiscal Officer.

JOINT FISCAL COMMITTEE AND OFFICE BUDGET:

3. Mr. Klein presented a proposed budget for the Joint Fiscal Committee and Office for fiscal year 2006 which, if approved, will then be submitted to the House and Senate appropriations committees. The requested appropriation is $1,018,373, which is consistent with the Administration's proposed budget figure for the Committee.

Accompanying the budget document was a memorandum on budget issues for 2006 as well as the remainder of the current fiscal year. As reflected in Mr. Klein's memorandum, variables which are not accounted for in the FY 2006 request include use of the services of the Legislature's revenue analyst, Tom Kavet; expenditures for health care related fiscal support during the summer and the 2006 legislative session; and possible funding related to instituting the integrated fiscal system initiative discussed with the Committee at the prior meeting.

On a motion by Senator Welch, seconded by Senator Cummings, the Committee approved the budget as submitted.

DUXBURY PROPERTY:

4. Postponed from the November 29 meeting was action on the proposal of the Department of State Buildings and General Services to sell State property located in Duxbury to CBC Construction, Inc. for $404,917. [Refer to the minutes of the November 29, 2004 meeting for background information and a summary of Committee deliberations on this subject.]

Tasha Wallis, Commissioner of State Buildings and General Services, distributed the purchase proposal submitted by CBC Construction, Inc., as well as one submitted by The Vermont State Farm Management Company. She advised the Committee that the Administration stands by its November 2004 recommendation to sell the Duxbury property to CBC Construction, Inc., which submitted the highest offer among four original bidders.

Jill Smith, Vice Chair of the Duxbury Selectboard, briefly reviewed essential points of the Committee's November discussion on this subject and what has transpired since. She noted that another offer to purchase the parcel has been withdrawn, leaving the two bidders mentioned by Commissioner Wallis. She said the highest bidder was not at all in compliance with the town plan or zoning, whereas the remaining one was 95% in compliance.

After the Committee heard from Ms. Smith and briefly discussed the matter, Senator Cummings moved as follows:

Acting in accordance with the provisions of Sec.1(c) of Act No. 102 of 1996 (An Act Relating to Sale of State Property in Duxbury and Moretown):

The Joint Fiscal Committee withholds its approval of the proposed sale of State-owned property located in the Towns of Duxbury and Moretown to CBC Construction, as recommended by the Department of Buildings and General Services at the November 19, 2004 Committee meeting.

The motion was adopted.

Although Senator Cummings hoped to establish a time frame within which the Committee might again consider possible options with respect to this property, the Chair said the matter is back in the hands of the Department of State Buildings and General Services. She nevertheless acknowledged that the discussion clearly indicates the Committee's interest in the matter's being settled as quickly as possible.

The meeting was adjourned at 12:50 p.m.

Respectfully submitted:

Virginia F. Catone

Virginia F. Catone

State of Vermont—Agency of Administration
Department of Buildings & General Services

REQUEST FOR APPROVAL OF JOINT FISCAL COMMITTEE

To: **Joint Fiscal Committee**
From: **R. Tasha Wallis, Commissioner BGS**
Date: **July 6, 2005**
Re: **Proposed Sale of Lot # 4 of Former State Farm in Duxbury**

Pursuant to Section 1 (c) of Act No. 102 (Vt. Leg. Adj. Session 1996)(the Act), Buildings and General Services offered Lot # 4 of the Former State Farm in Duxbury for sale on the open market. Additionally, the Act required that "The price of the three parcels shall be their fair market as determined through a publicly advertised sale".

Buildings and General Services placed the lot in question for sale by a public bidding process that complied with all applicable statutes and enabling legislation. On June 3, 2005 the State opened the bids that were received for the property. The high offer was from Bosselait Enterprises, Inc. and was in the amount of $ 531,000.00.

Buildings and General Services has reviewed the bid and determined that it has met all applicable criteria including the specific language contained in 1(c) of Act. No.102. Specifically, the Act required that Lot # 4 be ". . . sold as a single, combined parcel for the uses identified on the master plan." The "Master Plan" being identified in Section 1(a) of the Act as ". . . the master plan for the farm property, prepared by Cavendish Partnership, Inc. for the department of state buildings, dated November 20, 1995 and approved by the Town of Duxbury and the department of state buildings."

Having reviewed the bid and determined that it meets all the applicable criteria, it is the Department's recommendation that the Joint Fiscal Committee grant final approval for the Department of Buildings and General Services to complete the sale to Bosselait Enterprises, Inc.

R. Tasha Wallis, Commissioner
Buildings and General Services

NO. 101. AN ACT RELATING TO CROSSING STATE-OWNED RAILROAD PROPERTY.

(H.679)

It is hereby enacted by the General Assembly of the State of Vermont:

Sec. 1. 5 V.S.A. § 3407 is amended to read:

§ 3407. DEPOSITS INTO THE TRANSPORTATION FUND

(a) Funds received by the state from past, present and future service providers on state-owned railroad property, together with funds received by the state because of licenses, leases, easements, sales of real or personal property, or the like, pertaining to or arising from state-owned railroad property shall be deposited in the transportation fund.

(b) The agency of transportation shall not charge any fee to abutting landowners who enter into agreements for noncommercial pipe or wire crossings of state-owned railroad property.

Approved: April 17, 1996

NO. 102. AN ACT RELATING TO SALE OF STATE PROPERTY IN DUXBURY AND MORETOWN.

(H.681)

It is hereby enacted by the General Assembly of the State of Vermont:

Sec. 1. SALE OF STATE-OWNED PROPERTY IN DUXBURY AND MORETOWN

(a) The commissioner of state buildings, with the approval of the secretary of administration, is authorized to sell a parcel of state-owned land in the Town of Duxbury, to the Town of Duxbury, for use as a public school site. The parcel is a 34 acre, more or less, portion of the former state farm, as identified on the master plan for the farm property, prepared by Cavendish Partnership, Inc. for the department of state buildings, dated November 20, 1995, and approved by the Town of Duxbury and the department of state buildings. The Town of Duxbury shall pay the state $135,000.00 for the parcel. The transaction shall be subject to the conditions-of-sale identified in a letter dated November 16, 1995, from the department of state buildings to the Town of Duxbury selectboard, and as accepted by the Town of Duxbury selectboard in its letter dated November 27, 1995, to the department of state buildings.

(b) The commissioner of state buildings, with the approval of the secretary of administration, is authorized to offer options on four additional parcels located in the Town of Duxbury, to the Town of Duxbury, for a consideration of $1.00 for each option. The four parcels are identified on the master plan and the correspondence referred to in subsection (a) of this section. The purchase by the Town of Duxbury of any one or more of the four parcels shall be completed on or before June 30, 1996. Any of the parcels not purchased by the Town of Duxbury on or before June 30, 1996, shall after that date be offered on the open market at its fair market value as determined through a publicly advertised sale. The sale price of any of the four parcels if

sold to the Town of Duxbury shall be its fair market value as determined by the director of the division of property valuation and review. The sale of any of the four parcels to a party other than the Town of Duxbury shall be subject to final approval by the joint fiscal committee, which approval may be withheld.

(c) The commissioner of state buildings is authorized to offer three additional parcels for sale on the open market. The first two parcels are 37 acres more or less, located in the Town of Duxbury, and 114 acres more or less, located in the Town of Duxbury and the Town of Moretown, as identified on the master plan referred to in subsection (a) of this section, and shall be sold as a single, combined parcel for the uses identified on the master plan. The third parcel is 15 acres more or less, located in the Town of Moretown between U.S. Route 2 and the Winooski River. The price of the three parcels shall be their fair market value as determined through a publicly advertised sale. The sale of any of the three parcels shall be subject to final approval by the joint fiscal committee, which approval may be withheld.

Sec. 2. USE OF SALE PROCEEDS

All proceeds from the sale of property authorized by Sec. 1 of this act shall, after deductions for marketing expenditures, be reserved by the state treasurer for use in funding future state capital construction acts.

Sec. 3. REPEAL

Act No. 97 of the Acts of 1989 and Act No. 133 of the Acts of 1991 (1992) are repealed.

Sec. 4. EFFECTIVE DATE

This act shall take effect on passage.

Approved: April 17, 1996

NO. 103. AN ACT RELATING TO LICENSURE OF WELL CONTRACTORS AND PUMP INSTALLERS.

(H.686)

It is hereby enacted by the General Assembly of the State of Vermont:

Sec. 1. 10 V.S.A. § 1395 is amended to read:

§ 1395. APPLICATION

Any person who intends to engage in the business of drilling or servicing wells in the state of Vermont shall file an application with the department of environmental conservation for a license to do so on forms provided by the department on which the person's qualifications and other information which may be required by the department shall be stated. The fee for a license or a renewal shall be in accordance with 3 V.S.A. § 2822. The licenses so issued shall expire ~~annually~~ every three years on June 30, shall not be transferable and may be renewed on filing of a complete application and payment of the required fee in accordance with 3 V.S.A. § 2822. At the option of the applicant for renewal, the fee may be paid either in thirds, on an annual basis, or in full, upon filing an application for renewal.

Excerpt from Act 6 of 2005

Sec. 76. FUND TRANSFERS

(a) Notwithstanding any other provisions of law, in fiscal year 2005:

(2) All or a portion of the unencumbered balances in the insurance regulatory and supervision fund (Fund Number 21075), the captive insurance regulatory and supervision fund (Fund Number 21085), and the securities regulatory and supervision fund (Fund Number 21080), expected to be approximately $8,876,351.00 shall be transferred to the general fund, provided that on or before July 1, 2005, the commissioner of banking, insurance, securities, and health care administration certifies to the joint fiscal committee that the transfer of such balances, or any smaller portion deemed proper by the commissioner, will not impair the ability of the department in fiscal year 2006 to provide thorough, competent, fair, and effective regulatory services, or maintain accreditation by the National Association of Insurance Commissioners; and that the joint fiscal committee does not reject such certification.

Excerpt from Act 71 of 2005

Sec. 262. IN-DEPTH BUDGETING PILOT PROGRAM

(a) As part of the fiscal year 2007 budget development process, the commissioner of finance and management shall select up to two departments to undergo an in-depth budget review. The commissioner's choices of agencies to be reviewed shall be submitted for comment to the joint fiscal committee at its July 2005 meeting. Said review(s) when completed shall be submitted in writing no later than January 20, 2006 to the house and senate committees on appropriations along with the governor's budget proposal. The review shall examine all aspects of the department activities as to mission, goals, and performance measures, the various financial and budgetary systems in place, and specifically shall:

(1) Review department organization and finances for the effectiveness of achieving its mission.

(2) Evaluate whether there are any measures and specific measurable evidence of the value of the department's programs and expenditures.

(3) Assess the costs and benefits that would occur if a portion of the funds spent were used for other programs that could reduce demand for the department's services.

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STATE OF VERMONT
JOINT FISCAL OFFICE

MEMORANDUM

To: Rep. Martha Heath, Chair
Members of the Joint Fiscal Committee

From: Stephen A. Klein, Joint Fiscal Officer

Date: July 6, 2005

Subject: Fiscal Officer's Report

1. **Fiscal Year 2005 Closeout:** Overall current estimates indicate:
   a. The General Fund has a FY 2005 surplus of over $51 million. The budget contains an FY 2005 waterfall of about $37 million and there is another $10 million in reserve for budget adjustment. This should leave between $4-8 million for further budget adjustment, transfer to the Transportation Fund, or other purposes. This surplus is after accounting for $2.4 million of estate tax transferred to the Higher Education Trust Fund. The Higher Education Trust Fund with this transfer, and its August payout, will have slightly over $10 million in assets.
   b. The Transportation Fund shortfall is likely to be in the $2-4 million range. The close out process is in the early stages at this point. Transportation fund receipts have not been assigned to categories to understand where the shortfall is.
   c. The Education Fund is likely to have a slightly positive balance.
   d. The VHAP program appears to be about $7.5 million over FY 2005 budgeted expenditure levels in all funds. Of this about $3 million is non-federal recurring cost. We will have to make this up and the rollout impact on FY 2006. It will also impact our Global Commitment analysis.

   The General Fund surplus results from several factors including:
   - Very strong personal income taxes (up $32 million or 6% over forecast) and corporate income taxes (up $10 million or 20% over forecast).
   - Strong sales taxes and estate taxes which together added $6 million, and general strength elsewhere.
   - BISHCA surplus fee revenues are about $2 million over estimates and abandoned property receipts are also likely to be strong which, after transfers, will increase the FY 2005 general fund available surplus.

The Transportation Fund weakness is in several tax sources and it is too early to determine trends.

2. **Fiscal 2006 and 2007 revenue estimates:** At the Joint Fiscal Committee meeting Tom Kavet will be presenting his and proposed consensus revenue revisions for FY 2006 and FY 2007. The strength in FY 2005 final collections should result in a General Fund revenue upgrade. The July 14th Emergency Board meeting, where a new forecast will be set, will take place at 2:00 p.m., after the Joint Fiscal Committee meeting.

   The FY 2006 budget had contingent spending of just under $24 million. This includes funding for pay act, Medicaid and income sensitivity. In order to achieve the full level of contingent appropriations, the FY 2006 upgrade will have to equal or exceed that amount.

   Steven Kappel is working with the administration to update the caseloads and cost per case estimates for the official forecast process that underlies our Medicaid appropriations for FY 2006 and FY 2007. These are being done in a current law basis as MMA and Global Commitment changes will impact the estimates. These changes will be incorporated in the January forecast

3. **Global Commitment Waiver;** The global commitment negotiations are continuing with the week of the 11th likely to see some federal response. Preliminary indications are a reduced monetary benefit for the state but we have not seen any hard numbers. Once the proposal is finalized the Joint Fiscal Office will do an analysis prior to any health access oversight and Joint Fiscal Committee consideration. For this reason it is very likely that a special meeting of the Joint Fiscal Committee will need to be scheduled. We have asked the administration to do an update at the JFC meeting.

   As part of the global commitment implementation there will be major budget format and operational decisions to be made. Steve Kappel has drafted a memorandum which will accompany this report outlining some of the issues. The issues resolve around the role and function of the MCO and the changing nature of appropriated funds. As all Medicaid spending will now pass through the MCO, the form of legislative appropriation needs to be resolved. We have set up a working group with the administration to begin to develop options.

4. **Other Meeting Updates:**
   In consultation with the Chair, Rep. Martha Heath, the Administration has been asked to present an update on the Vermont State Hospital which is expected to be an area of continuing budget pressure. The Corrections Department ended the year on budget and therefore has not been scheduled to provide an update at the meeting.

5. **Duxbury Land Sale:** Once again, the Department of Building and General Services would like another vote on the Duxbury land sale. BGS is proposing a sale of land to the highest bidder in the most recent bidding process. The Town appears to be in

favor of this. Materials are in your package and more materials will be made available at the Joint Fiscal Committee meeting.

6. **Health Care Commission:** The Legislative Commission on Health Care was formed and held its first meeting on June 30th. The Director position has been widely advertised and resumes are due in by July 15th. The interview and hiring process will begin in mid-July.

7. **Legislative intent:** The legislative intent document for the budget is still a work in progress. It should be completed and available on the internet at the Joint Fiscal site around the 15th. The Budget is Act 71.

8. **Legislative Studies/Summer Responsibilities of Joint Fiscal Committee:** A very preliminary list of summer studies and legislative staff assignments will be available at the meeting. Not all legislative committee members have been appointed.

9. **Changes in Executive Branch:** The new Deputy Commissioner of Finance and Management, Susan Zeller, started on July 5th. Susan Zeller has most recently been working in the insurance industry in Corning, New York. She has over 15 years of professional financial/accounting and administrative management experience with Fortune 500, privately held and start-up companies. She has held positions as Chief Financial Officer, Vice President of Human Resources, Vice President of Finance, and Controller. Susan Zeller has Vermont family connections including Patricia McDonald who is her sister!

10. **JFO Staff/Office Updates:**
    - Close of FY 2005: FY 2005 ended with carry-forward funds which should meet FY 2006 needs as presented in the budget process.
    - Legislative Budget Information Systems Development: The process of hiring the budget system development staff person authorized in the budget has begun. The position was advertised widely but is not stirring massive demand as it requires a unique combination of skills. More information will be available at the time of the JFC meeting.
    - JFO newsletter: The first summer newsletter "The Fiscal Focus" will be sent the week following the Joint Fiscal meeting. It will include a report on committee actions and an update on closeout and revenues. The newsletter is distributed to all legislators following each Joint Fiscal Committee meeting.

Joint Fiscal Office

1 Baldwin Street • Montpelier, VT 05633-5701 • 802) 828-2295 • Fax: 802) 828-2483

MEMORANDUM

To: Joint Fiscal Committee

From: Steve Kappel

Date: July 6, 2005

Subject: Global Commitment – Implementation Issues

The Global Commitment, if it is approved by both CMS and the Joint Fiscal Committee, is likely to substantially change the financing of the Medicaid program. Many decisions will need to be made between now and January. The Joint Fiscal Office is working with the administration to identify the issues and to propose solutions.

Background

Currently, the Health Access Trust Fund (HATF) is the sole source of state funds for Medicaid and other health-related expenditures by the Office of Vermont Health Access (OVHA). About two-thirds of Medicaid spending in Vermont is through OVHA. The balance is spent by the Departments of Health; Disabilities, Aging and Independent Living; and Children and Family Services; and by local schools.

Revenue for the HATF comes from three main sources: provider taxes, cigarette & tobacco taxes (including a portion of funds from the settlement with tobacco manufacturers), and a transfer from the general fund. Each of these sources is about one-third of HATF revenue. Additional revenue comes from premiums paid by some beneficiaries. Most state funds for other departments are appropriated directly from the general fund.

The State of Vermont has applied to the federal Centers for Medicare and Medicaid Services (CMS) for a Medicaid waiver that could potentially require significant changes in the way the state finances the program. Approval of the waiver by CMS is expected sometime in mid-July. Although many details of the waiver are not yet available, the broad concepts are fairly clear.

The state will establish a public managed care organization (MCO). Under the current system, each department purchases health services, reimburses providers, and draws federal matching funds based on these expenditures. Under the MCO construct, the state will make payments to the MCO, analogous to premiums, which will be matched by the federal government. The MCO will then purchase services on behalf of beneficiaries.

As currently proposed, all program spending will flow through the MCO, but all administrative spending will remain outside it.

One of the major unresolved questions about the MCO is how funds currently appropriated to and spent by other departments will be managed and consequently, what the function of the HATF will be. Decisions will affect the appropriations process, how money is allocated among programs, and who is accountable for the financial and operational performance of the program.

Appropriations

Appropriations for Medicaid may have two components – an initial appropriation to the health access trust fund and a second appropriation from the fund. The second appropriation is much more important from a policy point of view.

For the initial appropriation, there are two basic choices: 1) continue to appropriate funds to individual departments and then transfer them into the HATF, for use by the MCO or 2) appropriate funds directly to the health access trust fund. While the first approach makes the amounts that each department has to "spend" explicit, to the extent that these funds are consolidated in the HATF for use by the MCO, it is not clear how spending of individual department dollars will be managed. The second approach eliminates any department-level budget, making allocation of funds even more complex.

In either case, there may be a second appropriation (analogous to the Education Fund). This would be to appropriate funds <u>from</u> the HATF. These appropriations could follow the current departmental construct or could incorporate a "type of service" component. For example, a specific amount of money could be appropriated for services that have historically been purchased (or provided) by the Department of Health, a specific amount could be appropriated for community mental health services, or a specific amount of the total appropriated to Health Department activities could be appropriated for purchase of community mental health services.

If there is not a set of appropriations from the HATF, it is not clear how allocations among programs will be made. Will this allocation function be delegated to the MCO within an aggregate budget? What role will the Legislature, the Agency of Human Services, and the individual departments have in this process?

Program Management

Currently, Medicaid spending is divided among departments based on diagnoses or types of service. Departments have management responsibility for both the operation of their program areas and in most cases, for the expenditure of funds.

How these responsibilities will be managed under global commitment is not clear. Again, there are several possible approaches. The simplest model would be for the MCO to enter into an agreement with each department to continue to manage its programs. This could be done in conjunction with an explicit appropriation or independently.

This issue may become especially complex in cases where departments provide services directly.

Education Funds
The financing of health-related services provided to students by local schools presents a unique problem. Currently, there is no state spending directly associated with the provision of these services. Schools provide the services, and file reports with the Agency of Human Services. AHS uses these reports to draw down federal match for qualifying services.

Unless local school spending is to remain outside the MCO, a mechanism will need to be developed to allow the state/local share of these costs to be treated as payments to the MCO.

Excerpt from Act 71 of 2005

Sec. 104c. OTHER MEDICAID APPROPRIATIONS; TRANSFER;

REPORT

(a) In addition to the appropriations in this act, all other appropriations of state, federal, and special fund amounts for Medicaid programs and purposes made in the fiscal year 2006 general appropriations act, or any other act appropriating funds in fiscal year 2006, shall be transferred to the health access trust fund established by section 1972 of Title 33 for use in fiscal year 2006 by the agency of human services for purposes of the trust fund. The agency shall submit reports on any transfers made in accordance with this section to the joint fiscal committee on July 1, September 1, and November 1 for committee review and consideration at its July, September, and November 2005 committee meetings.

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MONTPELIER VT 05620-2601
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STATE OF VERMONT
DEPARTMENT OF PUBLIC SERVICE

Memorandum

To: Joint Fiscal Committee

From: John D. Sayles, Deputy Commissioner JS

Subject: Quarterly Report Pursuant to 30 V.S.A. § 20(b)(9)

Date: January 11, 2005

Enclosed is the quarterly Federal Energy Regulatory Commission Billback Report to the Joint Fiscal Committee as required in 30 V.S.A. §20(b)(9). This report covers the period October 1, 2004 through December 31, 2004.

Please do not hesitate to contact me should you have any questions about this report. I can be reached at 828-4005.

cc: David Beatty, Finance & Management

VERMONT DEPARTMENT OF PUBLIC SERVICE

Federal Energy Regulatory Commission (FERC) Billback Report
Pursuant to 30 V.S.A. Section 20(b)(9)
October 1, 2004 through December 31, 2004

Contractors: Stinson Morrison Hecker, LLP/Duncan Weinberg Genzer & Pembroke, PC
Purpose: Legal representation

Report Prepared: January 11, 2005

Expenditures Billed to Utilities:

Utility Name	FERC Docket #	Amount Billed Back	Total
Barton Village Electric Department, Inc.	ER97-1079 (NEPOOL Restructuring)	13.21	
	PASNY/St. Lawrence	6.14	
	Project 2216		
			19.35
Burlington Electric Light Deptartment	ER97-1079 (NEPOOL Restructuring)	226.60	
	PASNY/St. Lawrence	105.26	
	Project 2216		
			331.86
Central Vermont Public Service Corporation	ER97-1079 (NEPOOL Restructuring)	1,799.31	
	PASNY/St. Lawrence	835.80	
	Project 2816	1,824.00	
			4,459.11
Enosburg Falls Electric Department	ER97-1079 (NEPOOL Restructuring)	17.80	
	PASNY/St. Lawrence	8.27	
	Project 2216		
			26.07
Entergy Nuclear Vermont Yankee, LLC	EL02-110		
			0.00
Green Mountain Power Corporation	ER97-1079 (NEPOOL Restructuring)	1,362.61	
	PASNY/St. Lawrence	632.95	
			1,995.56
Hardwick Electric Department	ER97-1079 (NEPOOL Restructuring)	24.67	
	PASNY/St. Lawrence	11.46	
	Project 2216		
			36.13
Hyde Park Electric Department	ER97-1079 (NEPOOL Restructuring)	7.75	
	PASNY/St. Lawrence	3.60	
	Project 2216		
			11.35
Jacksonville Electric Company	ER97-1079 (NEPOOL Restructuring)	4.02	
	PASNY/St. Lawrence	1.87	
	Project 2216		
			5.89

VERMONT DEPARTMENT OF PUBLIC SERVICE

Federal Energy Regulatory Commission (FERC) Billback Report
Pursuant to 30 V.S.A. Section 20(b)(9)
October 1, 2004 through December 31, 2004

Contractors: Stinson Morrison Hecker, LLP/Duncan Weinberg Genzer & Pembroke, PC
Purpose: Legal representation

Report Prepared: January 11, 2005

Expenditures Billed to Utilities:

Utility Name	FERC Docket #	Amount Billed Back	Total
Johnson Water & Light Department	ER97-1079 (NEPOOL Restructuring)	8.09	
	PASNY/St. Lawrence	3.76	
	Project 2216		
			11.85
Ludlow Electric Light Department	ER97-1079 (NEPOOL Restructuring)	31.34	
	PASNY/St. Lawrence	14.56	
	Project 2216		
			45.90
Lyndonville Electric Department	ER97-1079 (NEPOOL Restructuring)	45.64	
	PASNY/St. Lawrence	21.20	
	Project 2216		
			66.84
Morrisville Water & Light Department	ER97-1079 (NEPOOL Restructuring)	33.20	
	PASNY/St. Lawrence	15.42	
	Project 2216		
			48.62
Northfield Village Electric Department	ER97-1079 (NEPOOL Restructuring)	21.34	
	PASNY/St. Lawrence	9.91	
	Project 2216		
			31.25
Orleans Electric Department	ER97-1079 (NEPOOL Restructuring)	10.60	
	PASNY/St. Lawrence	4.93	
	Project 2216		
			15.53
Readsboro Electric Light Department	ER97-1079 (NEPOOL Restructuring)	1.45	
	Project 2216	0.67	
			2.12
Rochester Electric Light & Power Company	ER97-1079 (NEPOOL Restructuring)	6.05	
	PASNY/St. Lawrence	2.81	
			8.86
Stowe Electric Department	ER97-1079 (NEPOOL Restructuring)	46.15	
	PASNY/St. Lawrence	21.44	
	Project 2216		
			67.59
Swanton Village Electric Light Department	ER97-1079 (NEPOOL Restructuring)	41.37	
	PASNY/St. Lawrence	19.22	
	Project 2216		
			60.59

VERMONT DEPARTMENT OF PUBLIC SERVICE

Federal Energy Regulatory Commission (FERC) Billback Report
Pursuant to 30 V.S.A. Section 20(b)(9)
October 1, 2004 through December 31, 2004

Contractors: Stinson Morrison Hecker, LLP/Duncan Weinberg Genzer & Pembroke, PC
Purpose: Legal representation

Report Prepared: January 11, 2005

Expenditures Billed to Utilities:

Utility Name	FERC Docket #	Amount Billed Back	Total
Vermont Electric Cooperative, Inc.	ER97-1079 (NEPOOL Restructuring)	335.76	
	PASNY/St. Lawrence	155.97	
	ER34-794	133.00	
			624.73
Vermont Electric Power Company	ER02-1261		
			0.00
Vermont Marble Power Division	ER97-1079 (NEPOOL Restructuring)	5.28	
	PASNY/St. Lawrence	2.45	
			7.73
Vermont Renewable Power Supply Acquisition Auth.	PG & E NEG Bankruptcy		
	US GEN Bankruptcy	11,188.50	
			11,188.50
Vermont Yankee Nuclear Power Corp.	EC00-46		
			0.00
Washington Electric Cooperative, Inc.	ER97-1079 (NEPOOL Restructuring)	68.50	
	PASNY/St. Lawrence	31.82	
	Project 2216		
			100.32
FERC Billbacks 2nd Quarter FY05 (10/1/04-12/31/04)			19,165.75
Prior FY05 Billbacks			16,372.24
FY04 Total Billbacks			106,106.02
FY03 Total Billbacks			91,326.08
FY02 Total Billbacks			117,839.93
FY01 Total Billbacks			32,212.34
FY00 Total Billbacks			72,821.61
FY99 Total Billbacks			221,862.53
FY98 Total Billbacks			133,027.88
FY97 Total Billbacks			139,865.94
TOTAL FERC BILLBACKS			950,600.32

Joint Fiscal Office

1 Baldwin Street • Montpelier, VT 05633-5701 • 802) 828-2295 • Fax: 802) 828-2483

MEMORANDUM

To: Joint Fiscal Committee

From: Virginia Catone /VCatone

Date: July 7, 2005

Subject: Quarterly Federal Energy Regulatory Commission (FERC) Bill Back Report

Attached is the quarterly FERC billback report, transmitted from the Department of Public Service to the JFC as required in 30 V.S.A. §200(b)(9). This report covers the period January 1, 2005 through March 31, 2005.

The report for the fourth quarter of FY 2005 may be available in a few days, in which case we will distribute it at the July 14 meeting.

Enclosure

VERMONT DEPARTMENT OF PUBLIC SERVICE

Federal Energy Regulatory Commission (FERC) Billback Report
Pursuant to 30 V.S.A. Section 20(b)(9)
January 1, 2005 through March 31, 2005

Contractors: Stinson Morrison Hecker, LLP/Duncan Weinberg Genzer & Pembroke, PC
Purpose: Legal representation

Report Prepare‹April 11, 2005

Expenditures Billed to Utilities:

Utility Name	FERC Docket #	Amount Billed Back	Total
Barton Village Electric Department, Inc.	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence Project 2216	36.03	36.03
Burlington Electric Light Department	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence Project 2216	618.03	618.03
Central Vermont Public Service Corporati(	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence Project 2816 ER04-55	4,907.43	4,907.43
Enosburg Falls Electric Department	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence Project 2216 EL03-203/208	48.55	48.55
Entergy Nuclear Vermont Yankee, LLC	EL02-110		0.00
Green Mountain Power Corporation	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence	3,716.37	3,716.37
Hardwick Electric Department	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence Project 2216 EL03-203/208	67.30	67.30
Hyde Park Electric Department	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence Project 2216 EL03-203/208	21.14	21.14
Jacksonville Electric Company	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence	10.97	

Utility Name	FERC Docket # Project 2216 EL03-203/208	Amount Billed Back	Total
			10.97

Utility Name	FERC Docket #	Amount Billed Back	Total
Johnson Water & Light Department	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence Project 2216 EL03-203/208	22.06	22.06
Ludlow Electric Light Department	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence Project 2216 EL03-203/208	85.47	85.47
Lyndonville Electric Department	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence Project 2216 EL03-203/208	124.48	124.48
Morrisville Water & Light Department	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence Project 2216	90.56	90.56
Northfield Village Electric Department	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence Project 2216 EL03-203/208	58.20	58.20
Orleans Electric Department	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence Project 2216 EL03-203/208	28.92	28.92
Public Service Board	ER97-1079 (NEPOOL Restructuring	11,211.64	11,211.64
Readsboro Electric Light Department	ER97-1079 (NEPOOL Restructuring Project 2216 EL03-203/208	3.94	3.94
Rochester Electric Light & Power Compar	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence	16.50	16.50
Stowe Electric Department	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence Project 2216 EL03-203/208	125.88	125.88
Swanton Village Electric Light Departmen	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence Project 2216	112.83	

Utility Name	FERC Docket #	Amount Billed Back	Total
	EL03-203/208		112.83
Vermont Electric Cooperative, Inc.	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence Project 2216 EC04-46 EL04-66	915.75	915.75
Vermont Electric Power Company	ER02-1261		0.00
Vermont Marble Power Division	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence	14.40	14.40
Vermont Renewable Power Supply Acquis	PG & E NEG Bankruptcy US GEN Bankruptcy		0.00
Vermont Yankee Nuclear Power Corp.	EC00-46		0.00
Washington Electric Cooperative, Inc.	ER97-1079 (NEPOOL Restructuring PASNY/St. Lawrence Project 2216	186.83	186.83
FERC Billbacks 3rd Quarter FY05 (1/1/05-3/31/05)			22,423.28
Prior FY05 Billbacks			35,537.99
FY04 Total Billbacks			106,106.02
FY03 Total Billbacks			91,326.08
FY02 Total Billbacks			117,839.93
FY01 Total Billbacks			32,212.34
FY00 Total Billbacks			72,821.61
FY99 Total Billbacks			221,862.53
FY98 Total Billbacks			133,027.88
FY97 Total Billbacks			139,865.94
TOTAL FERC BILLBACKS			973,023.60

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STATE OF VERMONT
DEPARTMENT OF PUBLIC SERVICE

Memorandum

To: Joint Fiscal Committee

From: John D. Sayles, Deputy Commissioner

Subject: Quarterly Report Pursuant to 30 V.S.A. § 20(b)(9)

Date: January 11, 2005

Enclosed is the quarterly Federal Energy Regulatory Commission Billback Report to the Joint Fiscal Committee as required in 30 V.S.A. §20(b)(9). This report covers the period October 1, 2004 through December 31, 2004.

Please do not hesitate to contact me should you have any questions about this report. I can be reached at 828-4005.

cc: David Beatty, Finance & Management

VERMONT DEPARTMENT OF PUBLIC SERVICE

Federal Energy Regulatory Commission (FERC) Billback Report
Pursuant to 30 V.S.A. Section 20(b)(9)
October 1, 2004 through December 31, 2004

Contractors: Stinson Morrison Hecker, LLP/Duncan Weinberg Genzer & Pembroke, PC
Purpose: Legal representation

Report Prepared: January 11, 2005

Expenditures Billed to Utilities:

Utility Name	FERC Docket #	Amount Billed Back	Total
Barton Village Electric Department, Inc.	ER97-1079 (NEPOOL Restructuring)	13.21	
	PASNY/St. Lawrence	6.14	
	Project 2216		
			19.35
Burlington Electric Light Deptartment	ER97-1079 (NEPOOL Restructuring)	226.60	
	PASNY/St. Lawrence	105.26	
	Project 2216		
			331.86
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	Project 2816	1,824.00	
			4,459.11
Enosburg Falls Electric Department	ER97-1079 (NEPOOL Restructuring)	17.80	
	PASNY/St. Lawrence	8.27	
	Project 2216		
			26.07
Entergy Nuclear Vermont Yankee, LLC	EL02-110		
			0.00
Green Mountain Power Corporation	ER97-1079 (NEPOOL Restructuring)	1,362.61	
	PASNY/St. Lawrence	632.95	
			1,995.56
Hardwick Electric Department	ER97-1079 (NEPOOL Restructuring)	24.67	
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	PASNY/St. Lawrence	3.60	
	Project 2216		
			11.35
Jacksonville Electric Company	ER97-1079 (NEPOOL Restructuring)	4.02	
	PASNY/St. Lawrence	1.87	
	Project 2216		
			5.89

VERMONT DEPARTMENT OF PUBLIC SERVICE

Federal Energy Regulatory Commission (FERC) Billback Report
Pursuant to 30 V.S.A. Section 20(b)(9)
October 1, 2004 through December 31, 2004

Contractors: Stinson Morrison Hecker, LLP/Duncan Weinberg Genzer & Pembroke, PC
Purpose: Legal representation

Report Prepared: January 11, 2005

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			48.62
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	PASNY/St. Lawrence	9.91	
	Project 2216		
			31.25
Orleans Electric Department	ER97-1079 (NEPOOL Restructuring)	10.60	
	PASNY/St. Lawrence	4.93	
	Project 2216		
			15.53
Readsboro Electric Light Department	ER97-1079 (NEPOOL Restructuring)	1.45	
	Project 2216	0.67	
			2.12
Rochester Electric Light & Power Company	ER97-1079 (NEPOOL Restructuring)	6.05	
	PASNY/St. Lawrence	2.81	
			8.86
Stowe Electric Department	ER97-1079 (NEPOOL Restructuring)	46.15	
	PASNY/St. Lawrence	21.44	
	Project 2216		
			67.59
Swanton Village Electric Light Department	ER97-1079 (NEPOOL Restructuring)	41.37	
	PASNY/St. Lawrence	19.22	
	Project 2216		
			60.59

VERMONT DEPARTMENT OF PUBLIC SERVICE

Federal Energy Regulatory Commission (FERC) Billback Report
Pursuant to 30 V.S.A. Section 20(b)(9)
October 1, 2004 through December 31, 2004

Contractors: Stinson Morrison Hecker, LLP/Duncan Weinberg Genzer & Pembroke, PC
Purpose: Legal representation

Report Prepared: January 11, 2005

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	ER34-794	133.00	
			624.73
Vermont Electric Power Company	ER02-1261		
			0.00
Vermont Marble Power Division	ER97-1079 (NEPOOL Restructuring)	5.28	
	PASNY/St. Lawrence	2.45	
			7.73
Vermont Renewable Power Supply Acquisition Auth.	PG & E NEG Bankruptcy		
	US GEN Bankruptcy	11,188.50	
			11,188.50
Vermont Yankee Nuclear Power Corp.	EC00-46		
			0.00
Washington Electric Cooperative, Inc.	ER97-1079 (NEPOOL Restructuring)	68.50	
	PASNY/St. Lawrence	31.82	
	Project 2216		
			100.32
FERC Billbacks 2nd Quarter FY05 (10/1/04-12/31/04)			19,165.75
Prior FY05 Billbacks			16,372.24
FY04 Total Billbacks			106,106.02
FY03 Total Billbacks			91,326.08
FY02 Total Billbacks			117,839.93
FY01 Total Billbacks			32,212.34
FY00 Total Billbacks			72,821.61
FY99 Total Billbacks			221,862.53
FY98 Total Billbacks			133,027.88
FY97 Total Billbacks			139,865.94
TOTAL FERC BILLBACKS			950,600.32

VERMONT

State of Vermont
Department of Housing and Community Affairs
National Life Building, Drawer 20
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[Department fax] 802-828-2928
[Historic Preservation fax] 802-828-3206

Agency of Commerce &
Community Development

MEMORANDUM

TO: Joint Fiscal Committee
FROM: John Hall, Commissioner, DHCA
DATE: July 12, 2005
SUBJECT: H.116, Section 210, c

In accordance with the above-cited Appropriations Act, the following represents the plan for the use of CDBG funds for brownfields activities.

General:

The Community Development Act provides for the ability of states to use up to 10% of its annual grant for removal of "slums and blight." Activities such as the assessment and remediation of brownfields (land and/or buildings that are perceived as being, or are, contaminated with hazardous waste) has been interpreted by HUD to be activities that remove "slums and blight." Therefore, Vermont could use up to about $800,000 for brownfields activities.

Procedure:

The Vermont Community Development Program is a mature and well-proven program that distributes funds in four "cycles" per year to municipalities. These municipalities either use the money themselves, loan the money to for-profit entities, or subgrant the funds to not-for-profits. The procedures for accessing these grants are detailed and satisfy federal requirements. The intention of the Department is to distribute brownfields grants in the same manner and during the same cycles as we do with all other Implementation Grants with three exceptions.

First, we will set aside $750,000 annually for brownfields projects. These projects must result in reuse and occupation of the site within two years of making a grant. The funds are not available for the purposes of clean up alone where no reuse is guaranteed to occur. Grants could be used for assessment (only when no other source is available and assessment is critical to the viability of the project), remediation planning, remediation, stabilizing the cleaned up site, and monitoring of the clean up.

Second, we will publish a Notice of Funds Availability (NOFA) which will invite proposals for the set-aside funds.

Third, proposals submitted for the brownfields set-aside will not compete with other Implementation Grants. Proposals that are received in the same cycle and are for brownfields projects will compete against each other, but separately from housing, economic development, public facilities, or public service proposals.

Recapture of Set Aside:

The intention of the Department is to reintegrate funds not used for brownfields projects back into the undivided community development fund for any grant activities. This would occur according to a formula. There are four "cycles" of funding per year and, of the remaining balance of unused set aside, excess funds will be released from the set aside and essentially returned to the general community development fund for other implementation projects. (See spreadsheet attached.)

JSH:lcf

Brownfields Setaside Recapture

	Quarter	First Quarter Setaside	Granted	Recaptured	Second Quarter Setaside	Granted	Floor	Recapture	Third Quarter Setaside	Granted	Floor	Recapture	Fourth Quarter Setaside	Granted	Floor	Recaptured	Total Granted	Total Recaptured	Balance	Total Returned to Program
Formula		750000	0	0	750000	0	562500	187500	562500	0	375000	187500	375000	0	187500	187500	0	562500	187500	750000
Test		750000	50000	0	700000	100000	562500	37500	562500	50000	375000	137500	375000	125000	187500	62500	325000	237500	187500	425000